

Cover



The Founder's Guide to Business Insurance



Where to start with business insurance



You've planned, struggled and problem-solved through the hardest part of starting your own business. Now, it's time to protect it with insurance tailored to your growing company.

Do you know the difference between general liability and umbrella coverage? Are you unsure what damage would be paid for in the aftermath of a natural disaster?

Don't worry – you're not expected to know all of the nuances of a commercial policy. It's your agent's job to help you understand the costs and benefits of each type of coverage.

This matters because, unfortunately, there is **no such thing as a catch-all insurance policy for your business.**

Your industry, unique selling model, and even your stage of growth will determine the coverage appropriate for your company.

Instead of leaving yourself exposed to risk, understanding the basics can go a long way to making sure you have coverage that matches your current business needs.

With this guide you can quickly master the key points of each type of policy and decide how much of what types of insurance you need right now.

The key types of business insurance

The following types of insurance coverage are typically offered to business owners **individually or as part of a bundled policy**. We'll explain some common instances where they may come in handy.



1. General liability
2. Commercial property
3. Business owners policy
4. Errors and omissions
5. Workers comp
6. EPLI
7. Directors and officers
8. Commercial umbrella

Many of these coverages may go by a different name, or have slightly different applications and exemptions than those listed. For this reason, make sure you read the terms of any policy in full before purchasing.

Ready to dive in? Let's get started.

1. General liability

General liability should be the **foundation policy on which you build the rest of your coverage**.

This policy is meant for **third party bodily injury or property losses and claims** arising from potential negligence by your company. It's extremely important to understand what your general liability policy covers so you can adequately address your other coverage needs.

How general liability works

Imagine your company made brake pads. If a batch of pads proved to be defective **your business would be considered negligent — and therefore liable for any third party losses or claims** related to the pads.

For example, if a person was injured in an accident caused by the defective pads, their medical costs would be covered by a general liability policy. Likewise, the cost to repair or replace property damaged in the accident would also be covered.

Keep in mind that **general liability doesn't cover every eventuality**. In the case of the defective brake pads, the policy would not cover the cost of a product recall, or the cost to your business of replacing the defective inventory.

Which businesses need it most?

There is **no one-size-fits-all application of general liability**. Most businesses need this coverage, but how much will depend on your specific needs.

If you're providing a consulting service, you might only need a policy that includes premises liability without all the bells and whistles of a traditional general liability policy.

If you're in manufacturing, distribution or most service industries, you'll probably want to make sure you get products and completed operations covered under the policy.

2. Commercial property insurance

Just as you would have the structure and contents of your home covered in case of a disaster, you'll need similar coverage for your business premises. There are generally three types of property coverage offered to businesses.

Personal property coverages, which offer protection and replacement of items, such as desks, chairs, computers, and office equipment.

Building coverage, which would repair or rebuild physical building structures if needed.

Business interruption coverage, which would pay you if you're unable to earn regular business income due to a covered event and is especially useful to startups, since a pause in your earnings could be devastating to the future of your business.

How commercial property insurance works

In the event of a fire, for example, all three components of a good commercial property policy could come into play.

Replacing **office equipment or furniture** would be made through the personal property portion of the policy. If the building suffers **structural damage**, it would be repaired through payouts from the building coverage. During such repairs, you're unlikely to be open for business and will lose revenue. The business interruption portion will pay you during this time.

Which businesses need it most?

If you only run your business from a vehicle (such as a food truck), your coverage needs mean you won't require substantial building coverage. Similarly, if you run your company from home, you may already be covered for some personal or building damage.

Be sure you **discuss this with your personal property agent to be certain**. Most businesses can benefit from the interruption coverage, however, so if the other components of a commercial property policy don't apply to you, **ask if you can purchase this portion separately**.

3. Business owners policy



This policy combines **commercial property** and **general liability insurance** and gives the widest range of coverage to businesses looking to protect themselves against common losses.

These are sometimes referred to as “**bundled**” policies, as well. To ensure that you are getting the best bang for your buck, ask the agent to **price out the policy components separately and ask for a discount** if you do decide to combine all coverages into one BOP.

How it works

Some business owners policies may have a large minimum deductible to match higher maximum payout thresholds.

If you have a very small start-up or consultancy, however, the more generous policy benefits may not be suitable on a limited budget, since **they usually command higher premiums**. Look then for individual components at smaller thresholds that match your company’s scope—and payroll.

That said, there are strategic advantages to investing in a BOP. While most business owners will never see the money they pay in through a BOP returned as claim payments, this is not a bad thing. Business insurance policies **are there to help founders sustain the type of losses that would wipe out an uninsured business** — whether they happen, or not.

Which businesses need it most?

If your startup is fully operational, **owns property** and is in the phase of **hiring employees** or independent contractors, a comprehensive BOP might be for you. However, if you run your operation out of **shared spaces, rental units or virtually**, you may not need the standard commercial property coverage. If you can safely go without this commercial property coverage, this policy may not be a good buy.

4. Errors and omissions

If your business provides **advice or consulting services**, consider this coverage. Designed for professionals and quasi-professionals, it protects you from **costs arising from damages stemming from information and advice you provide**.



How E&O Works

If a customer or client claims your advice or services were flawed, an E&O policy will provide you with reimbursement for **any costs you encounter in the legal or settlement process**. It can also cover your legal fees.

Which businesses need it most?

Anyone charging for advice, such as **financial counselors** or **life coaches**, should consider it. If you work in **media or provide informational services**, even as a website or blog owner, this policy may be a requirement before entering into client contracts or to comply with trade or professional association requirements.

Doctors, medical service providers and lawyers also need this, although it's more commonly referred to as "**malpractice**" – a more specific form of E&O coverage for businesses in these industries.

5. Workers compensation

Workers compensation insurance (“workers comp” for short) is a common policy for any business that has employees, **however small the team is**.

If you’ve recently **received funding to expand**, for example, this insurance should be your **top priority**. Because it’s regulated by the government, the best way to know if it applies to you is to inquire with your state business office or an agent familiar with your locale.

How workers comp works

This coverage protects companies and workers by providing **payouts to those who suffer injuries or illness during their employment**, while doing tasks related to their work.

Typically, the employer **doesn’t have to be at fault or show liability for a payout to occur**. Negligence doesn’t always have to be proven for a worker to receive payment from a claim.



Which businesses need it most?

Most states in the U.S. **require all businesses (even startups) to have some form of workers comp coverage**. The only exception is **Texas**, where it’s optional. Individual state requirements will depend largely on your industry and how many people you employ.

What type of coverage, the total coverage amount, and premium costs will vary significantly by industry. For instance, if your startup is in **tech, you’ll probably pay less** for coverage than a business in the **construction or restaurant industries**.

6. EPLI

Employment practices liability insurance (EPLI) is another type of protection recommended for any [startup who hires workers](#).

This policy pays out when a company is [accused of wrongful acts arising from the employment process](#).

Since there are numerous state, local, and even municipal laws regulating the hiring process — from the advertising of a position, to the application, to the offer of employment — it can sometimes be overwhelming for the hiring team.

Many startups don't have a dedicated HR person, let alone a whole department, until they scale massively. To protect whomever is making the [hiring decisions at your company](#), [EPLI coverage is essential](#).

Currently, EPLI is available as a stand-alone coverage, but it is also frequently [sold as part of a management liability package](#) policy that typically includes D&O coverage (more on D&O below).

How EPLI works

Claims against your company including wrongful termination, discrimination, sexual harassment, and retaliation may not always be prevented, but a solid EPLI policy can help pay out when problems occur.

These policies can cover the cost of a settlement and legal fees incurred when defending your company against unfair hiring and human resources practices.

Which businesses need it most?

Anyone who hires should consider it, [including startups who work with independent contractors](#). Even if you rely on [a staffing agency or headhunting service](#) to get your best talent, it's wise to consider how added protections can keep your business safe during turbulent times.

If you don't actively recruit workers, EPLI can also cover you against accusations of failure to promote or negligent evaluation. Additionally, if a disgruntled employee or freelancer feels that they were unfairly passed over for a deserved advancement, EPLI is there if they pursue legal remedies.

7. Directors and officers

Usually referred to as D&O, this policy covers defense costs in the case that **upper management of a company** suffer loss from legal action when someone **accuses them of committing a wrongful act during their company tenure**.



How D&O works

Payments from a D&O policy are usually made to the directors and officers, the company, or both. Policies vary, but it's possible to extend coverage to pay for legal defense costs for criminal or regulatory investigations into officers' behavior at the company, such as when a director unknowingly helps commit a banking crime.

Despite these added coverages, however, D&O doesn't usually cover illegal practices done on purpose, such as proven insider trading cases.

Which businesses need it most?

As you can see from these examples, this type of coverage applies to **larger companies and publicly-traded corporations** — as well as any **Series A and Series B companies**.

While many startups haven't reached the size or stature for their founders and directors to think D&O is needed, **companies who raise funds have a fiduciary duty to investors to seek protection**. Startups have an understanding with their shareholders and beneficiaries that they will do all they can to protect share values — and this may include purchasing D&O.

8. Commercial umbrella

Just when you think you're fully protected with the right liability coverage, it's possible you might need more. A commercial umbrella policy is designed to **increase the limit of other insurance policies to help prevent a large cost from wiping your business out.**

Coverages that umbrella policies help bolster include **general liability, business auto and worker's compensation.** Without this added coverage, it's possible that you won't be prepared for an especially **devastating claim against your company.**



How commercial umbrella insurance works

Remember that when you make a claim about your business, whether it be on **a product's effectiveness or a pricing plan,** you are putting yourself at risk of having someone dispute and claim injury.

Just the legal fees associated with hiring an attorney can cost tens of thousands of dollars—even if you win your case. A good umbrella policy can **protect against even the most frivolous lawsuits.**

Which businesses need it most?

Some businesses are more likely to deal with significant claims than others. Even the smallest startup, however, can become a **defendant in a slip-and-fall claim or a slander lawsuit.**

While commercial umbrella policies may sometimes include increased liability limits on E&O and D&O policies, some issuing agencies will require you to increase limits in these separately. If you are at a stage where you don't have the capital to defend against a million-dollar liability claim, a commercial umbrella policy might be wise.

What to do next

Commercial insurance is a considerable investment, but one **that your company can't really afford to get wrong.**

By choosing an agent that understands your industry's needs and can tailor your policy package to those things that matter most to your workers, **you can protect your business in the best way when the worst things happen.**

There is no one-size-fits-all policy. There is also no standard approach to crafting the most appropriate policy package.

Each agent, carrier, and business will have varied needs and business goals that should be reflected in the policy provisions.

Know what your business does well and why it's important to be protected. Then **make time to speak to a Cover agent about the perfect plan for you.**



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