Understanding Commercial Policies

Types Of Policies

All businesses need property/casualty insurance coverage. The “property” component protects against damage to or loss of the business’s property. The “casualty” or liability component provides protection against legal liability for damages caused to other people or their property. A wide variety of lines of business fall into these broad categories.

PACKAGE POLICIES

Commercial insurers sell coverage’s separately and/or offer policies that combine protection from most major property and liability risks in one package. Package policies are created for businesses that generally face the same kind and degree of risk

Business Owners Policy

Smaller and mid-size companies often purchase a package policy known as the business owner’s policy or BOP. BOP coverage includes property insurance for buildings and contents owned by the company, and liability protection to cover a company's legal responsibility for the harm it may cause to others. There are two different forms, standard and special, which provides more comprehensive coverage. A key option is business interruption insurance, a form of property insurance that covers the loss of income resulting from a fire or other catastrophe that disrupts the operation of the business. Business interruption can also include the extra expense of operating out of a temporary location. Costs due to business interruption can exceed the property damage that caused the business to shut down.

BOPs do not cover professional liability, auto insurance, workers compensation or health and disability insurance. Businesses need separate insurance policies to cover professional services, vehicles and their employees’ health/disability needs.

Home Businesses

Most of America's 11 million home-based businesses are vulnerable to significant financial losses because they do not have the proper business insurance coverage, according to a survey by the Independent Insurance Agents & Brokers of America. Several insurance companies have developed special package policies to address the special needs of home businesses. Home entrepreneurs have other options for coverage, including BOPs, or “incidental business endorsement", a special form that attaches to an existing homeowners policy.

Commercial Multiple Peril Policies

Larger companies might purchase a commercial package policy or customize their policies to meet the special risks they face. Commercial multiple peril policies, often purchased by corporations, bundle property, boiler and machinery, crime, and general liability coverage together.

CLAIMS MADE VS. OCCURRENCE POLICIES

Liability insurance protects the assets of a business when it is sued for something the business did (or failed to do) that caused injury or property damage to someone else. A business’s liability exposure includes not only paying damages and perhaps a penalty as the result of a successful lawsuit against it, but it also includes attorney's fees and other costs involved in defending a company against a liability claim. Liability coverage may be purchased as part of the package policy, such as the BOP, or the commercial multiple peril policy, or as a separate liability policy known as a commercial general liability insurance policy (CGL). Insurance companies write CGL policies in two ways: as an "occurrence" policy or a "claims made" policy.

Most CGL policies are written with what is called an "occurrence trigger." This means that the CGL policy in effect at the time the alleged injury or property damage occurred is the policy that covers that event, regardless of how far back that event was from the time the claim is filed, or whether the same insurance company is currently insuring the defendant. For example a person might slip in a shoe store, but not experience severe back pain until several months after the fall. By this time, the store might have switched insurers. However, the claim will be handled by the company that was the store's insurer at the time the fall occurred.

CGL policies may also be written on a "claims made" basis. This means the current liability insurer is responsible for claims made during the policy period, even though the event that gave rise to the claim occurred in a prior year. In the above example, the shoe store's current insurer would be responsible for the claim. The claims made policy is used for only a small percentage of liability insurance, mainly for medical malpractice and other types of professional liability.

LARGE DEDUCTIBLE PLANS

Large deductible policies are designed to give employers that are willing to retain most of the claims risk an option that reduces their insurance costs. The deductibles are generally in amounts of $100,000 or higher. Large deductible programs, which were first introduced in 1989, are used by many companies for their workers compensation insurance, as a way of making costs more predictable. Like retrospective policies, they give employers a strong financial incentive to control losses.

CRIME INSURANCE

Most businesses are vulnerable to losses from crime. Typical commercial property insurance policies exclude losses of money and securities due to any peril and often do not insure inventory, equipment and other types of property against theft. These loss exposures are covered by crime insurance. Coverage for crime losses whether by outside or inside thieves (e.g. embezzlers) may be included in a package policy or the insured business owner may purchase any one of a number of separate policy configurations to protect against these losses. As in other areas, the business owner needs to work with the agent or broker to determine the best coverage and the amount of coverage needed for the particular business.