

Insurance Buying Guide for Small Business

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CFIB has been actively engaged in helping small business access insurance at a reasonable cost. We have consulted and worked with various levels of government as well as groups such as the Insurance Bureau of Canada (IBC) and the Insurance Brokers Association of Canada (IBAC). For more information, please visit our website at: <http://www.cfib.ca/legis/national/insurance.asp>

CFIB played an integral part in helping to develop the Online Risk Management Tools on the IBC website at: http://www.ibc.ca/en/Business_Insurance/Risk_Management/ These sector specific tools are designed to help you identify and manage risks associated with your business.

We have been working with Craig Rowe, a leading expert in risk management and insurance buying and author of the IBC online Risk Management Tools to develop this Insurance Buying Guide for Small Business. Success in business is maximizing the upside and minimizing the downside. Risk management is the function of minimizing the downside.

The good news is you are already managing risk by regularly inspecting your premises for hazards, by training staff how to use equipment, by checking new employees' driving records and good conduct with the police, and any other thing that you do that helps prevent accidents, employee injuries, crime, fire, etc.

To help you further become an effective insurance consumer, here are basic risk management techniques that are used by the experts to help businesses manage their insurance costs:

Budget for the market cycle

The insurance market is cyclical with extreme swings from high to low. Plan for this by budgeting at the high end. So when you find that prices are easing, resist the temptation to decrease budgets. Also, check with your insurance agent or broker annually to ask where we are in the market cycle.

Work on becoming a coveted account to insurers

Insurance companies can only underwrite a limited amount of business. Because of this, they will choose what they feel to be the most profitable risks to insure. It is important to make sure you are one of the good risks that they want to "invest in". If you treat an application for insurance as a presentation to illustrate why your company is worth investing in, then you will likely do better in the insurance market.

Sell yourself to your insurer at every opportunity

Most businesses have positive attributes that are not known by their insurer. Many have policies, procedures, practices and other features that insurers would look upon favorably, if they were aware of them. So don't keep them to yourself, use them to your advantage.

Make your insurance renewal submission comprehensive yet concise

You want the underwriters to have all the information they need to make a decision. The submission should be easy to read and understand. Don't tie them up with unnecessary information, but make sure to include all of the relevant information about your operations especially about the things you do to prevent losses and that make you a better risk than other similar companies. If there have been changes to your business since the last renewal, let your agent/broker know as soon as possible. Don't wait for them to call you—be proactive!

Concentrate on improving your risk

The insurance market is cyclical. However, no matter where we are in the cycle good risks generally get a better price and term than less favourable risks. By having a culture of safety and risk improvement, and by communicating that effectively to insurers through your agent/broker, you will be more successful in the insurance market.

Consider higher deductibles

Choose deductibles that result in the optimal cost of risk. The general principle is: the higher the deductible, the lower the premium. When shopping for insurance ask for premium quotes for different deductible options.

Make sure you are getting the best deal possible

As satisfied as you may be with your insurer, from time to time you need to make sure they are being competitive. Also, don't be afraid to ask for a better price. After the dramatic increase in premiums from 2002-2004, prices should now be coming down. Work with your broker to ensure that you are getting the best deal possible.

Make sure your property values are accurate

Accurate values for things like buildings, contents, equipment and stock mean you are adequately covered, but that you aren't paying an excessive amount.

Make sure your policy limits are accurate

Limits are the maximum a policy will pay for a stated coverage. Limits are placed on liability, crime, business interruption and other types of coverage. Strike a balance between your comfort level that the limits are high enough to cover your anticipated maximum loss and the cost to purchase those limits.

Periodically check your insurance coverage

DON'T OVER or UNDER INSURE! Work with your insurance broker to make sure you have the appropriate coverage.

Utilize your insurance representative's services

Most businesses do not fully utilize the services of their broker. Ask your broker what services they can provide in addition to the ones you currently receive. While some services are included in the fees you already pay, others are available for additional cost. Examples include risk management and loss control, claims advice and advocacy, risk identification and analysis, etc. Also, ask your insurance representative which insurance companies they will approach on your behalf. If you are shopping around and you ask this of each broker you will have a good idea of how many choices are available to each broker and how vast or limited a market there is for your type of business.

Report all claims to your insurance representative promptly

Your agent/broker will advise you of your rights and obligations. Failing to give prompt notice may result in denial of the claim.

Identify and weigh your risk

Risk identification and measurement is easy to do. Brainstorm with staff from all levels to find out what your risks are. List them, then consider their likelihood of happening, and if they do occur the potential impact. This will organize your risks in a way that allows you to identify the more common and serious risks so that you know the areas to which you need to commit resources.

Invest time and money in safety and loss prevention

Insurers look very favorably upon businesses that take safety and loss prevention seriously! This can often result in yearly premium savings, not to mention the savings achieved if losses are prevented.

Insurance certificates are an effective method of risk transfer

Insurance Certificates are proof that the people and companies you do business with are financially able to pay for claims that might occur. Forward requests for insurance certificates to your agent/broker. Ask your agent/broker for advice on both the certificates that you request and the certificates that are requested of you.

Keep all old insurance policies and certificates

Policies and certificates are your proof that coverage existed. They are very valuable. Some losses aren't discovered for many years after they occur and it is possible that they could be covered by an old policy. Without the policy information you have no way to make a claim.

Implement and follow formal written policies

Policies and procedures are a very effective way to defend against claims and lawsuits. For a business to be successful it must be "doing things right". Many of these things

that you are doing right are informal risk management. By formalizing them into written policies, training staff, enforcing them, and keeping documentation you will prevent losses and you will be in a better position to defend a loss should one occur. Policies and procedures should reflect best practices in your industry, so do your homework. Sources of information include your insurance representative, industry associations, your lawyer, and your peers.

Consider transferring risk by using contracts

Always get legal advice when drafting or reviewing contracts. Consider contracting out high risk activities that are incidental to your business. If you are a general contractor that does very little blasting, the cost of insurance may make it more practical to contract that service out to a specialist. Snow-clearing and salting and sanding of ice are a common activity that is contracted out. Make sure you use contracts that state who is responsible for what and require that contractors carry acceptable insurance.

Develop and implement a Business Continuity Plan (BCP)

A well thought out and practiced BCP will greatly improve the odds that your business will survive a catastrophe or shutdown. Consider things like where you will operate, how you will communicate with customers and staff, how you will replace equipment and stock, how you will continue to generate revenues and pay bills, how you will retrieve information and documents.

Physical protection can often result in savings

Investment in sprinkler systems, burglar alarms, fire resistant construction, and other types of physical protection can save you money in the long run. Discounts are often given for these things, so you need to analyze the cost of installation versus the premium savings over time, and the potential reduction in losses.

Conclusion

Every business is different. Different products, different legal jurisdictions, different insurance policies, different activities, and different circumstances make it impossible to make a cookie cutter solution for all businesses in all situations. One generalization can be made and that is this: **over the long term, businesses that do a good job of managing risk will have fewer claims and achieve better results in the insurance market than those who do not manage their risk well.**