
SMALLER FIRMS NEED THE SAME PROTECTION AS BIG COMPANIES

By Dick Goff

The reason many people prefer to work in small-to-medium-sized consulting firms is that they typically have spent the formative years of their careers in larger organizations, and on their list of career objectives, escape ranked high. Who would miss the stultifying bureaucracies, the impenetrable and redundant management layers, the office politics, the anonymous cubicle farms, or the incessant red tape about things like budgets and insurance?

I hate to break it to you, but some aspects of big business apply to *all* businesses, from the largest down to the home-based consultancy. And unless one is independently wealthy, certain types of business insurance are necessary to defend against the inevitable risks.

The good news is that most forms of insurance coverage are included in a single package, often called a business owner's policy (BOP). These usually include:

- **Property insurance** for buildings, equipment, furnishings, and work product owned by the company. There are usually some options, depending on the nature of the business and the comprehensive breadth of desired protection.
- **Business interruption insurance**, which covers the loss of income resulting from a fire, flood, or other catastrophe that could put a company effectively out of business for a period of time. This coverage can also include the extra expense of operating out of a temporary location.
- **Liability protection**, which covers a company's legal responsibility for damages to others. This could include damage through negligence or damage caused by defective products or facilities.

A BOP doesn't include coverage such as workers' compensation, health, or disability insurance. Depending on the regulations of individual states, separate policies may be needed for these coverages.

In addition, business owners or employees who use their personal automobiles for business activities such as transporting supplies or products or visiting customers or worksites, should contact their personal auto insurance company to make certain that business activities are covered.

Insurance for home-based businesses

Those lucky individuals who stroll to their offices in their bathrobes and slippers probably think they're protected by their homeowner's insurance policies. This is seldom the case.

For example, those running their business from home may not have enough insurance to protect their business equipment. A typical homeowner's policy provides only \$2,500 coverage for business equipment. In addition, they may need coverage for liability and business interruption.

To insure a home-based business, two basic choices are available, depending on the nature of the business and the insurance company that provides coverage. They are:

- **Homeowners' policy endorsement.** Home-based business operators may be able to add a simple endorsement to their existing homeowners policy to double their standard coverage for business equipment such as computers. For as little as \$25, policy limits can be doubled. Some companies will allow increases up to \$10,000. An endorse-

ment can also provide liability coverage in case clients or delivery people are injured on the property.

- **In-home business policy.** An in-home business policy provides more comprehensive coverage for business equipment and liability than a homeowner's policy endorsement. In addition to protection for business property, most policies reimburse business owners for the loss of important papers and records, accounts receivable, and off-site business property. Some will pay for lost income (business interruption) in the event the home is so badly damaged by a fire or other disaster that it can't be used for a period of time. Some in-home business policies allow a certain number of full-time employees, generally up to three.

In-home business policies generally provide broader liability coverages with higher amounts of protection. They may offer protection, for example, against lawsuits for injuries caused by products or services the company offers.

Professional liability coverage

Anyone who provides a service based on professional expertise is a prime candidate for professional liability coverage, also known as errors and omissions (E&O) insurance.

Those who hold themselves out to clients as experts can be found liable for advice that results in damage to the client. They can be ordered to pay the cost of both direct and indirect damages. In the case of roofing consultants, costs could escalate beyond structural repairs to replacement of valuable materials or equipment that may be damaged or destroyed.

Professional liability insurance is intended to protect against the significant financial loss that can result from a lawsuit. Regardless of fault, litigation is costly, time consuming, and potentially disastrous to a firm's reputation.

Some firms have relied on their general liability insurance to protect against claims of errors or omissions, but these policies typically cover physical damages to persons or property caused by faulty equipment, facilities, or products. For defense against liability due to errors or omissions, a professional liability policy works best.

As the use of professional liability has proliferated and as underwriters have developed plans for specific businesses and industries, premium costs have generally dropped into an affordable range. For the same kinds of "malpractice" insurance that costs medical professionals tens of thousands of dollars, consultants' premiums are measured in the hundreds.

Professional liability insurance is often required by Requests-For-Proposal (RFPs) or in contracts for services. For this reason, some consultants have treated the policies as a form of protection that can be discarded after the period of time when the possibility of errors would be highest. This is a dangerous practice.

Most professional liability policies have a "claims made" provision stating that the policy must be in effect at the time the claim of liability is made – not just when the negligent event occurred.

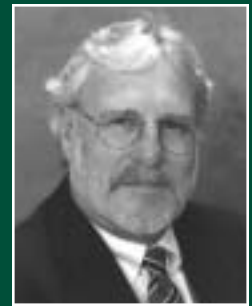
Any structural deficiencies of roofs, for example, could remain unnoticed for a considerable time. If the consultant discarded the professional liability policy after the work was done, that firm could end up writing checks for considerable damages.

To guard against claims that occur after a job is completed, most policies offer an extension period beyond the original term, or a prorated premium. This is called the "tail." Some job contracts include requirements for the term of professional liability coverage, often for a period of years after a job is concluded.

For consultants, a continually renewed professional liability policy provides the best protection against the effects of current or past errors. A BOP that includes general liability protection and a professional liability policy will protect consultants against most kinds of exposures to risk. That holds true whether the office is in a downtown building or your family room.

ABOUT THE AUTHOR

Dick Goff is president of MIMS International, Ltd., the administrator of RCI's Professional and General Liability Insurance programs. He has more than 20 years of experience as a specialist in insurance plans for association members. He is a member of the Business Partner Advisory Council of the Society of Association Executives and on the board of the South Carolina Captive Insurance Association and the Captive Insurance Council of the District of Columbia. Goff also sits on the DC Department of Insurance and Securities Regulation's Captive Advisory Board. He is also a trustee of Rocky Mountain College, Billings, MT. Goff may be reached at rcgoff@mimsintl.com.



DICK GOFF