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Cheryl Burkhart-Kriesel

University of Nebraska--Lincoln, cburkhartkriesel1@unl.edu

Paul H. Gessaman

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Setting Up Your Own Business: **Planning Your Insurance Coverage**

*By Cheryl Burkhart-Kriesel, Extension Specialist-Community Development
Originally by Paul H. Gessaman, Retired Extension Economist*

Among the important business decisions you will make each year are your decisions about insurance. Both the type(s) of insurance you decide to carry and the level of coverage provided through each type of insurance are important. In event of a serious mistake by yourself or your employee, an accident, a natural or man-made disaster, or other similar event, it's likely your insurance coverage is all that will stand between you and a major loss - possibly all that's between you and a bankruptcy.

At the same time, insurance premiums are a significant operating expense. Funding insurance premiums often is difficult for a start-up or small-scale business. Unless your business generates substantial revenues, paying the premiums for insurance coverage may seem impossible. Ultimately, only you can decide how much risk exposure you are willing to carry and how much is to be shifted to an insurance company through insurance.

Insurance decisions are made more difficult by the nature of insurable risks. Most persons pay insurance premiums year after year receiving only peace of mind in exchange - by definition an insurable risk is one where a very small proportion of policy holders experience losses in any given year. If it were not that way, providing insurance would not be feasible for the insurers.

Uninsured business losses usually are your personal responsibility. When you pay premiums for insurance coverage, the insurance company accepts part or all of your risk in exchange for a premium payment. Under terms stated in a hazard insurance policy, the insurance company agrees to pay losses that otherwise would be your responsibility. To the extent identified in a liability insurance policy, the insurance protects you from liabilities arising from actions or inactions of yourself or others who act on your behalf (employees, agents, or others).

As a part of its contract with you (the policy), the insurance company usually accepts responsibility for defending you if a claim or legal action is filed by someone alleging you did or didn't do something, and damage and loss resulted. Without insurance, the expense of defense against a claim can be very high

and could put you out of business.

As a first step in making decisions about insurance coverage, learn everything you can from persons with training and experience in the insurance business - insurance agents. Talk with two or more agents about your business activities and insurance needs. Ask for information on the types of insurance available, the recommended levels of coverage, and the premium costs of each alternative. Include a request for information about business continuation insurance - coverage that replaces income if your business operations are interrupted by a natural or man-made disaster. Other commonly held insurance policies could include a business owner package policy, property, liability (both comprehensive general liability and umbrella), fleet, worker's compensation, health, and home business insurance.

Be sure you understand the nature of risks not covered by each insurance alternative and the nature and limits of all deductibles and exclusions. When you've assembled information and recommendations, study them carefully. Talk about insurance with the proprietors of businesses similar to yours. Then, make your decisions. If experience tells you different types of coverage are needed, be willing to make changes in your insurance coverage.

As you make decisions about insurance, keep this in mind: unless a special endorsement provides coverage for business purposes, insurance on your home and/or personal vehicle generally **does not** provide protection against risks associated with business use of the premises or vehicle.

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This publication was originally authored by Paul Gessaman, extension economist. It has been updated and revised by Cheryl Burkhart-Kriesel, extension specialist - Community Development and reviewed by Ingrid Battershell, director, Nebraska Business Development Center - Scottsbluff.

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