



## **The Importance of Appropriate Business Insurance Coverage**

Mike Menerey, Partner, CFO Edge, LLC

Operating a business entails many pressing concerns: marketing your product, finding a location, hiring competent staff, and establishing a customer base, to name a few. However, one of the most important areas—business insurance—is often also one of the most frequently overlooked. Business insurance is critical to the survival of any business.

While there are many different kinds of business insurance and forms of coverage to be utilized, all serve to protect the business, its cash flow and its inherent value from catastrophic losses. These losses could result from anything from physical damage to legal liability to intellectual property theft to employee theft. There is also business insurance to protect the company in the instance of interruption to its business or to its customers' businesses resulting from Acts of God, actions of third parties or government actions. If none of these losses occur, business insurance also exists to ensure the long-term stability of the business and to reassure investors that the company is prepared to withstand any such events.

Besides preparing for worst-case scenarios, business insurance should also be considered as a means of protecting the company's positive assets, such as key people within the business, or to facilitate exit or succession plans. Regardless, business insurance is an integral and dependable means of protecting a company's assets.

### **Types of Business Insurance to Consider**

There is a wide selection of business insurance available. The most important first step is to assess your particular business's potential risks and then determine what insurance coverage is of the greatest value to you.

First and foremost, it is important to ensure the security of your company property. Insuring your property and equipment is a necessity and should always be done at replacement cost. Similarly, it may also be advisable to insure inventory against loss or damage.

Depending on your industry, liability insurance could also be extremely important, as it protects you from litigation related to a range of issues. Standard liability insurance covers any property damage or injuries sustained by others for which your business might be responsible. On the other hand, product liability insurance protects your business from any harm that your products might cause. Similar to these is errors and omissions insurance, which is of particular relevance to service-based businesses and offers your business protection from liability related to your business activities.

One area of business insurance coverage that many owners neglect to consider is business interruption coverage. This type of insurance will cover your business against loss during an interruption, no matter the cause. Business interruption insurance typically accounts for instances of damage to a supplier, damage to your assets, or interruptions caused by government action, labor disruptions and other factors.

### **The Cost of Insuring your Business**

In these financially turbulent times, many companies are struggling with the ever-present risk versus cost debate. Unfortunately, in many cases, business owners are opting to cut costs and risk the safety of their businesses in the long-term. However, this kind of risk is not necessary; there are ways to find a middle ground between cost and undue catastrophic risk.

As previously mentioned, it is advisable to first assess your particular needs before pursuing any form of business insurance. It is likely that your business does not require every form of insurance available (earthquake and flood insurance, for example, may be mandatory in certain locations but completely unnecessary in others). You can, therefore, focus your resources on those areas that are necessary.

Secondly, consider carefully the cost versus risk conundrum, and determine how much risk you are willing to incur. By adjusting your deductible and amount of coverage, it is possible to avoid spending unnecessarily.

Before reducing or eliminating any business insurance coverage as a result of making these assessments, be absolutely certain that it is justified. In many cases, the benefits of having coverage will far outweigh the price. For example, a competitive benefits package, which generally includes employee insurance coverage, is vital in ensuring the continued loyalty of your employees and can be a key factor in securing your workforce for the long-term.

### **In Summary**

While business insurance coverage may sometimes seem like a non-essential luxury, it is, in actuality, a vital component in the preservation of your business's long-term health. Business insurance coverage not only protects your business against potentially catastrophic losses, but also improves investor confidence by providing enduring stability.

- There are many varieties of business insurance available. While some, such as property insurance, are typically necessary for everyone, other kinds are industry-specific. It is, therefore, important to assess your company's potential risks in order to determine exactly which kinds of coverage are needed.
- When analyzing the benefits of insurance versus self-coverage, it is important to consider that it is possible to mitigate premium costs while still ensuring coverage of the vital areas. By increasing deductibles and reducing coverage where possible, your business can effectively balance cost and risk. You can also address issues in your business process that may further reduce risk and resulting insurance costs (i.e., safety programs).
- Business insurance is exceptionally important. Besides protecting against loss, insurance can also be used to preserve important assets. In particular, it is possible to use insurance benefit packages to attract or keep valuable employees.

When insuring your business, it is often difficult to assess potential risks and coverage needs internally. In such cases, an external provider like an outsourced CFO services firm can help you identify any exposures and point to any outstanding insurance issues that should be addressed.

### **References and Further Reading**

"Protect your business: 7 types of insurance coverage"; Jeff Wuorio; Microsoft Business; 2011.

<http://www.microsoft.com/business/en-us/resources/finance/business-insurance/protect-your-business-7-types-of-insurance-coverage.aspx?fbid=mawr0aneCap>

"The Importance of Business Insurance"; Touch Financial Support; 2011.

<http://www.touchfinancial.co.uk/the-importance-of-business-insurance/>

"Why's Business Insurance so Important?"; Protect Your Future; ACGNJ.US; 2010.

<http://www.acgnj.us/why-s-business-insurance-so-important>

"The importance of retaining insurance cover"; Simon Ball; Newbusiness; March 2010.

<http://www.newbusiness.co.uk/articles/insurance-advice/the-importance-retaining-insurance-cover>

**About CFO Edge**

CFO Edge, LLC is a leading Southern California provider of interim CFO services. Based in Los Angeles, we are a group of experienced chief financial officers who engage with CEOs and CFOs on demand to address strategic planning, business management, and day-to-day financial operations challenges. Our seasoned professionals deliver services as interim CFOs, part-time CFOs, project-based CFOs, recruitment-to-permanent CFOs and interim-to-permanent CFOs. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit [www.cfoedge.com](http://www.cfoedge.com) or call 626.683.8840.

This publication has been prepared for general information on matters of interest only, and does not constitute professional advice on facts and circumstances specific to any person or entity. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication. The information contained in this material was not intended or written to be used, and cannot be used, for purposes of avoiding penalties or sanctions imposed by any government or other regulatory body. CFO Edge, LLC, its members, employees and agents shall not be responsible for any loss sustained by any person or entity who relies on this publication.