

Entrepreneurs

Five Mistakes: When Buying Business Insurance

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Buying business insurance is tricky stuff. Policies, often 50 pages long, are opaque at best, and the underwriters aren't exactly motivated to maximize their payouts--and you surely don't want to fight them on a claim.

"It's very expensive even if you win," says Scott Britton, an insurance lawyer with Chicago-based Brenner Ford Monroe & Scott. Britton has represented large insurers such as **St. Paul Travelers** (nyse: STA - news - people) and **RLI** (nyse: RLI - news - people), as well as the small companies they underwrite.

Most entrepreneurs seek property and liability coverage--in case, say, someone slips and falls in their store

or gets hurt using one of their products. Then there's business-interruption insurance, which covers operating losses if a hurricane reduces your building to rubble. No matter what kind of insurance you're buying, tread with caution, says Britton.

Here are five common mistakes:

1. **Buying Less Than You Ever Think You'll Need**

Whether you are looking for \$50,000 or \$5 million worth of coverage, add an "excess liability" policy, says Britton. Excess or umbrella insurance kicks in after the initial insurance policy has been exhausted. These policies cost as little as several hundred dollars a year (a fraction of the cost of your main policy) and come in handy in the event of a catastrophe, he says.

2. **Avoiding The Hard Work Up Front**

Business insurance policies don't come in pre-set sizes like sneakers, so there is no reason not to tailor your policy precisely to your needs. But doing that means knowing what your

needs are, and that requires a hard look at the risks of your business, says Britton. After the policy is drawn up, scour it; make sure you're clear on every exception specified in the footnotes. If there's anything you don't understand, have your insurance broker walk you through the finer points. (Note: Some exceptions are non-negotiable. For example, nearly all insurers won't cover losses related to mold and terrorism.)

3. **Not Minding The Attorney Fees**

Some policies bake in fees paid to the insurance company's attorneys, says Britton. Example: You might have an insurance policy that covers up to \$1 million in claims, but the insurance company could spend \$200,000 litigating the claim and use your payout to do it. Figure this out before you sign.

4. **Cutting The Runway Short**

Determine when your coverage starts and stops. The carrier might start the clock a month after the papers are signed; on the other end, you can be liable for several years after you stop doing business, so con-

sider negotiating a "tail policy." A reasonable policy should remain in effect for several years after your company shuts its doors, says Britton.

5. Being Dishonest

Underwriters will ask a series of questions to assess the level of risk.

Answer fairly and accurately--if you don't, and you file a claim related to a risk your carrier was not aware of, you may well be denied coverage. (That said, you don't have to volunteer information beyond a carrier's specific questions.) Also, disclose prior claims under previous compa-

nies. For example, if you used to own a trucking outfit and your drivers had several accidents, you must disclose this to an underwriter when drafting a policy for your new trucking company. Your rate will rise, but if you fail to disclose your insurance history, your claims could be denied later on.

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