

Small Businesses Without Insurance Take Dangerous Risks

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Often, small businesses and startups work with a tight budget. As a result, it might be tempting to forego certain types of insurance that aren't required by law. In fact, a survey of 30,000 business owners conducted by Next Insurance found that 44 percent of responding businesses have never had insurance at all.

Unfortunately, taking such a risk could end up costing way more than the monthly premiums ever could. Jamie Dokovna, an employment attorney with Becker and Poliakoff, said failing to purchase insurance simply because it isn't legally required isn't necessarily the best move. For instance, if a customer slips and falls on your property, injuring themselves in the process, it typically costs up to \$20,000 to settle a subsequent lawsuit.

"It's often a case of being pennywise but pound foolish," said Dokovna. "For some small businesses, they look at the cost [of insurance] and they say, 'Well, it's a little expensive, so I'm willing to take the risk.' But it's not cheaper to forego insurance when you need it and wish you'd had it."

Instead, Dokovna said, it's best to make strategic decisions about which insurance policies your business needs and which it doesn't. The only way to do so is to know your industry well.

Types of insurance coverage

Some kinds of insurance coverage are required by law if your business reaches a certain size. For example, the Affordable Care Act mandated employer-sponsored healthcare coverage for businesses with 50 or more employees. Similarly, most states have a workers' compensation requirement, which requires employers that reach a certain employee threshold (it varies from state to state) to maintain workers' compensation insurance and policies. Failing to retain these types of insurance doesn't just expose small businesses to the risks they're intended to cover but also to governmental action for violating the law.

There are other types of coverage that aren't required by law but might be wise to have depending on your line of business. In keeping with the slip-and-fall example above, fees for attorneys and settlements could be covered by professional liability insurance. However, only 21 percent of businesses report maintaining this type of coverage, meaning the vast majority are vulnerable.

That said, certain businesses might deem it a remote risk that someone visits their property at all, let alone injures themselves, so they forego coverage. This is a strategic choice, and likely an acceptable risk, as opposed to a retail store that sees customers daily and chooses to roll the dice anyway, for example.

Know what you need

There are many types of business insurance, so before you shop around for a plan, it's important to consider your specific needs. A general liability, or business owner's policy, is good for umbrella coverage, but depending on the type of business you own, there may be other insurance policies that better protect your business. Jeff Kear, owner of event-management software Planning Pod, said that work-from-home business owners should consider separate home-based business insurance.

"Don't assume that your homeowner's policy will cover your business assets, because many policies do not cover most home-based business losses," said

Kear. "They may not cover all assets, and probably won't cover any kind of business or professional liability."

Kear also recommended obtaining business-interruption insurance to help keep your business afloat in the event of natural disasters, data loss or theft.

Compare quotes

Choosing an insurance provider is like any other major decision: You should always consider all options before making a final choice. Comparing quotes from multiple providers can help you get the most comprehensive coverage for the best price.

"Get at least three quotes from insurance providers, and do a comparison based on the deductible, the premium, what damages are and are not covered, and the quality of customer service," said Andrew Schrage, founder and CEO of financial advice site Money Crashers.

Find a good agent or broker

The insurance agent or broker you work with is the person responsible for helping you protect your business. As with the plan itself, consider your options for agencies, and don't necessarily choose the one that's closest to you.

"Look for an agent who specializes in business insurance and can be a long-term partner," said Mike Wolfe, co-founder and CEO of marketing agency WAM Enterprises. "It's important to establish a relationship with your agent. Research online, and ask other business owners who they work with. We have several agencies in our town, but [we] decided to do business with an agent who is farther away, because we developed a relationship and trust."

An insurance broker, rather than an agent who works for a specific provider, may be a good choice for business owners who want to find coverage from different providers to suit all their needs, said Kear.

"When you're sitting down and talking with an agent, make sure the agent understands your business and what you do, and how many employees you have. Most good agents will know what you need," Dokovna said. "Some small businesses even use [professional employer organizations], and so those companies sort of act like a super employer; they offer other types of insurances which are often cheaper and more cost-effective for a small business owner being able to tap into a larger resource pool than they would have on their own."

Always review your policy

Most insurance policies need to be renewed annually. Before you sign on for another year of coverage, it's wise to look over the fine print of your policy and account for any changes, either in your business or in the provider's terms of service.

"Coverage and policies change all the time, so review your business with your agent every year," said Paige Dawson, founder and president of marketing firm MPD Ventures. "Your business may have changed during a coverage year, and [your policy] may no longer be adequate. Adding or dropping employees, services, products, physical locations, etc. can have an impact on your policy." If your business goes through a major change or transition in the middle of coverage, discuss it with your insurance agent as soon as possible, and have him or her walk you through your options. Depending on the change, you may even be able to save money on your policy.