



THERE

Insurance 101 for businesses

Are you running a business as a **solopreneur**?
Are you a **small or medium business** owner?
This guide is for you.

PROMUTUEL
INSURANCE

BUSINESS



This guide is for reference only and does not constitute insurance advice. For advice related to your situation, please contact a damage insurance representative practicing in commercial lines damage insurance.

Starting a business takes a great deal of determination, resources, and organization. How can you be sure you've thought of everything?

It's critical to protect the money, energy, and time you invest early on as well as the progress, results, and profit you achieve over time. That way, your company can continue to operate without putting future plans at risk in the event of a disaster or a third-party claim. It's no secret: the best way to stay protected is to purchase [commercial insurance](#).

Whether you're a small or medium business owner or a solopreneur, this guide is the tool you need to start thinking about commercial insurance and it can also serve as a valuable business ally.

Key information about your business

There are many types of coverage available, and which you choose will depend on a number of key factors. To help your damage insurance representative identify your business needs, provide the right advice, and recommend the right products, there are certain key pieces of information they need.

- ▶ **How big is your business?** Are most of your clients local? Do you sell handcrafted products on the Internet or to a retail chain?
- ▶ **Where is the business located?** Are you in an industrial or residential area?
- ▶ **What are your business activities?** Do you offer language revision services? Residential painting?
- ▶ **What are the risks associated with your operations?** Do you have a warehouse? Do you handle confidential data?
- ▶ **What are the risks of dealing with a disaster?** While it's unlikely that your sewing machine will catch fire, the restaurant on the ground floor of the building where your business is located could be a greater fire hazard. Are your stored fabrics properly insured?
- ▶ **Location:** Do you run your business from a building that you own or rent? If you don't own the property, you may face the consequences of decisions that are not the most favourable to your business, such as a renovation schedule or reconstruction costs. Talking about it with your landlord may limit the financial impact of the disaster, but finding common ground sometimes takes time, especially when multiple parties are involved. These kinds of delays can affect how you recover.
- ▶ **Transportation:** Are your property and your merchandise frequently transported by road? Do your operations require your property or merchandise to be transported off site? Things like construction tools, massage tables, computer equipment, or custom cakes and other products you sell?
- ▶ **Data:** How much data do you have about your clients? More importantly, does your company comply with the *Act respecting the protection of personal information in the private sector*, as recently amended by the *Act to modernize legislative provisions as regards the protection of personal information* (Bill 25)? A confidentiality incident can have adverse consequences for your clients as well as your company.

Determine the right amount of insurance

To estimate the amount of insurance you need, generally speaking you should add up the replacement value of your business assets and, if you own the premises, the rebuilding cost of your business location. Even if it's just an estimate, it's important to include everything when you calculate the value of your assets and your building. Should a disaster occur and result in significant

losses, an amount of insurance that is too low could affect the amount of indemnity paid by the insurer and have a significant impact on your business—and on how you recover.

Remember to consider the personal financial risk of assessing the value of your assets and your building too low. Often, and especially when people are starting a business, it's their personal savings that they invest.

In the event of a disaster, being underinsured could affect your indemnity, recovery, and personal finances, but also have serious personal and psychological repercussions due to stress. Insurance coverage that meets your needs and is sufficient provides peace of mind and financial security in the face of unforeseen circumstances. It's something people need to think about when they refinance their homes to open the coffee shop they've always dreamed about, and when they leave a paid job to offer their expertise as a solopreneur.

It's also a major challenge for people who, as they started out on their journey as an entrepreneur, invested human capital in time and energy, whether by going back to school or conducting in-depth research to develop prototypes. Others may have invested their savings to purchase the equipment and components they need to launch their products.

The faces of entrepreneurship are many. However, every individual who goes into business, regardless of their background, benefits from insurance coverage that lets them build the successful company they've been dreaming of with peace of mind. Not sure how much insurance you need? Don't hesitate to consult a damage insurance representative who can help you understand the valuation process and protect more than just your financial health.

► **How do you assess the value of your property and the cost of rebuilding?**

Start by listing your company's property. Be sure to keep this list up to date as the company changes. The list will be useful for your damage insurance representative when they calculate the value of your property and estimate the cost and timing of replacements, both when purchasing insurance for the first time and when renewing the one you already have. Your representative will then be in a better position to re-assess your company's current needs and risks and confirm that your policy is in order. Property to include in your inventory:



- » Furniture
- » Equipment
- » Supplies and tools
- » Merchandise and materials in storage
- » Communications systems
- » Documents and archives, both paper and digital

If you do not own the premises, consider improvements and betterments made or paid by you. These are additions specific to your space, such as floor coverings and wall panels, shelving, and floor-mounted equipment. Small amounts like these can add up to a big portion of the cost of replacing your property after a disaster.

As for your building, the costs involved go beyond the cost of reconstruction, whether we're talking about a garage, a warehouse, an apartment building, a shed, or any other structure related to your business operations. You should also include the cost of labour, current prices for construction materials (which vary based on supply and demand), and costs for demolition and debris collection.

The assessment of the rebuilding cost and the replacement value of your property is essential information your representative needs to create a quote that is commensurate with your business and offer coverage that fits your needs. For that reason, you should assign the valuation work to a specialist, such as an accredited appraiser. This will limit unpleasant surprises in case of disaster, and ensure that you are well aware of the reality of your business so you can make informed business decisions.

To maintain sufficient and appropriate coverage for your needs, remember to notify your insurer of any changes in your situation that may alter your insurance policy.

What is a **deductible** and why is it important?

In the insurance industry, your **deductible** is the amount you agree to be responsible for if you make a claim as a result of a covered loss. This is the only amount you would have to assume, with the remainder being paid by your insurer, subject to the coverage, conditions, limitations, and exclusions of your insurance policy.

For example, if your company's merchandise warehouse is engulfed in flames and your policy has a deductible of \$2,000, even if the total cost of the damage reaches \$20,000, you will only have to assume \$2,000. Your insurer will pay the difference of \$18,000. However, if the fire is quickly contained and the damage does not exceed your deductible in the previous example, it will be up to you to cover the costs and the insurer will not pay any compensation.

In case of claim, the deductible is a way to share the financial burden of the risks between the insurer and you. It is also a good way to lower your premium, which is the payment you make to your insurer and in exchange for which they offer coverage for the duration of your policy.

It may be tempting to opt for a higher deductible in order to lower your commercial insurance premium. However, there are some disadvantages lurking behind this seemingly promising strategy. You could end up with some very unpleasant surprises if disaster strikes your business. If the fire that destroyed your merchandise warehouse was covered under your policy to the tune of \$20,000 and you had chosen a deductible of \$10,000 because you wanted a lower premium, then you would end up paying half of the total compensation. That could quickly become a problem if your company happens to be short on cash at the time of the disaster.

When determining the amount of your deductible, think carefully about your company's financial capacity. And to limit the risk of a disaster in the first place and, at the same time, the possibility that your premium will increase, be sure to have the right kinds of preventive measures in place.

The right **coverage** for your unique business

Just as there are many different types of business, each with its own reality and specific needs, there are many different types of commercial insurance. That's why your damage insurance representative is the best person to determine which types of coverage are the most favourable for your business, so you only have to pay for the insurance you need.

For example, for your business property, the insurance products that will benefit you are generally based on your buildings, premises, assets, and revenue. Below are some types of coverage to consider for your commercial insurance.

▶ **Building insurance**

It is not enough to just take the amount on your most recent municipal or commercial assessment or to keep renewing at the same level of your initial quote. The insurance amount for a building must be updated regularly, taking into account many changing factors.

For example, if you have recently made improvements or added on to a facility you own, the rebuilding cost may be higher, and therefore the insurance amount should be increased. That could affect your premium.

▶ **Contents insurance**

This coverage is not only essential, it is also required by your bank when you apply for a business loan. The contents you need to insure include more than the furniture used by your staff on a day-to-day basis. There's also your equipment, supplies, decorative components, and stored merchandise and materials.

Many business owners fail to think about all the things considered as contents, and they often overlook key items when they purchase a policy. To get the right coverage, make sure you include everything.

▶ **Equipment breakdown insurance**

What's the difference between property insurance and equipment breakdown insurance? Usually, property insurance covers damage caused by exterior factors such as a storm, fire, theft, or vandalism.

Businesses often think of equipment breakdown insurance as a supplement to their property coverage, as it covers accidental damage to machinery on the premises that is critical for operations or damage caused by something that is not covered by other property insurance. Basically, it covers risks that are excluded from your basic policy, for example, an electrical panel malfunction that causes a breakdown or damage to a production machine, or a faulty electronic cash register that prevents you from collecting payments from your customers.

And if you use a computer to provide professional services, equipment breakdown insurance could help you avoid the big expense of replacing an abnormally faulty or broken piece of equipment.

In short, for a loss to be admissible, the damage caused must meet all of the following criteria in order to be properly defined as an accident:

- » Be sudden
- » Be accidental
- » Cause physical damage
- » Require the repair or replacement of equipment

A mere equipment malfunction does not make the loss admissible. To trigger compensation under an insurance policy, you need to be able to show that equipment in question has been damaged.

▶ **Loss of income insurance**

Your business insurance covers your building and contents, which you have taken time to list so you don't forget anything. But what about your income? You need your income in order to pay your suppliers, your staff, your financial institution—and to pay yourself, if you are a solopreneur.

Maintaining your income after your business recovers or after your property has been replaced or repaired is also the key to making sure your business survives financially after a major disaster. That's what loss of income insurance covers to limit the financial impact of a downturn in your business after a covered loss, either until your business returns to normal or until your assets are restored. There are three types of loss of income insurance:

- » Gross earnings insurance (gross revenue)
- » Insurance for actual loss sustained (projected financial loss over a fixed period, which covers things like wages)
- » Insurance for gross earnings losses (projected financial loss over an indefinite period, which covers wages, operating expenses, sales, etc.)

Choosing the option that best suits your business circumstances will also provide peace of mind for you, as there will be less pressure to get back to business after a disaster. Then you can focus on the safe recovery of your business and the well-being of the people who work there.

► **Cyber risk insurance**

The confidentiality of the information you hold about your company, staff, customers, and partners is just as important as the business relationships you have with them and the quality of the services you provide.

IT security measures to minimize the risk of an incident and the addition of coverage against risks related to the confidentiality of the information in your possession will attest to your professionalism and the diligence of your efforts to preserve the integrity of the data entrusted to you.

In addition, cyber risk insurance can cover business interruption resulting from a third-party data breach and can often include preventive services or crisis management services in the event of a cyber attack.

► **Crime insurance**

No one wants to add insurance against crime to their suite of coverage, but by the same token, no one wants to suffer the consequences of being uninsured if they are a victim. Insurance against crime covers the misappropriation of your property (for example, money, equipment, and merchandise) by a person in your employment, as well as offences related to acceptance in good faith of counterfeit bank notes or cheques, subject to their respective conditions, limitations, and exclusions.

Despite rigorous security measures and the constant vigilance of your accounts payable team, your business could end up in the awkward position of accounting and inventory losses due to fraud.

Don't hesitate to ask your damage insurance representative for more information about this type of coverage.

General civil liability

As soon as your business begins operations, it could be the subject of a claim from a third-party that would hold your business liable for property damage or bodily injury, albeit unintentional. No business is immune to an incident. Despite your best intentions, yours could be named in a **civil liability** claim, for example:

- » A customer slips on the ice at the entrance to your premises.
- » Your crane damages the balcony of a property next to your work site.
- » Your refrigeration system is defective and causes food poisoning.
- » One of your flagship products is defective and results in a financial loss to a new business partner.

If any of these situations result in a claim under supprimer civil liability insurance, subject to their respective conditions, limitations, and exclusions, your insurer has an obligation to make payments to assist with your defence, the cost of which can quickly become quite significant. You'll receive such assistance from your insurer whether or not you're ultimately found to be at fault. In addition, if your company is responsible for property damage or bodily injury to the third-party and the incident is covered by your policy, your insurance will pay compensation to the victim, within the applicable limits.

The insurance amount required for this coverage varies depending on your activity and on the reality of the business. A third-party victim of damage or harm can be paid an amount equal to the maximum allowed compensation. This insurance will therefore be tailored to your specific company and will have to be adjusted as your business circumstances change.

Also, did you know that purchasing supprimer civil liability insurance could benefit your company when you build new business relationships? Liability insurance shows your suppliers and your customers that you have sound business practices and solid financial footing.

Going solopreneur? See what is covered by your **residential insurance**, and what is not!

If you run your business from home, chances are you already have [residential insurance](#). While it's true that residential insurance can include property for business use, coverage is limited if such property is damaged, destroyed, or stolen as a result of a covered loss (your insurance policy normally puts a cap on the amount it will pay out). In addition, residential insurance excludes professional liability, which would protect you from claims by a customer about the quality of your work. Remember: you have an obligation to notify your insurer if you run a business or conduct a professional activity in your residence.

[Professional liability insurance](#), also known as errors and omissions insurance, can protect your business from the financial impact of actions and of losses incurred by your clients as a result of an error or incorrect counsel on your part.

Certain types of businesses are regulated by professional orders or are legally required to obtain professional liability insurance. And professional liability may be required for many types of professions and specializations, as liability insurance excludes professional services.

Has a client filed a lawsuit because of a mistake in a document you translated? Does a customer think that the marketing counsel you gave failed to achieve the expected results? Did you cause burns to a client as a result of in-home hair care services you provided? The right errors and omissions insurance could protect your business from these types of actions and claims for damages.

To save money, it's best to **bundle**

For 360° protection for your business and its operations, you need a damage insurance representative who can take into account the specifics of your business situation to advise you on appropriate coverage. Make it easier to manage your business by **bundling all your policies with the same insurer** as soon as possible. That way, keeping your profile up to date during the term of your coverage and at renewal will be quick and simple.

If you run your business from home, there are even more advantages. Keep in mind that insurance coverage is subject to exclusions and limitations, and that not all insurers offer the same types of coverage. **Using different insurers** could result in insufficient coverage in the event of a claim. Also, if a disaster were to affect both your business and your residence, talking to the same person is a lot easier than coordinating things with multiple parties, and will help you avoid unpleasant surprises should you file a claim. In some cases, you might have a single deductible for damage to your business and your home.

For small or medium business owners, another advantage of bundling your business car and residential insurance is access to generous discounts, subject to the applicable conditions.

Taking out commercial insurance is a must for small or medium business owners and solopreneurs. It's also important to choose wisely when deciding which insurer to entrust with the responsibility of protecting your assets, so you can run your business and chart a course for growth with peace of mind.

Business insurance, the ally you need

Commercial insurance shouldn't be shrouded in mystery. Make it a loyal ally that, when properly put together with the right types of coverage, protects your operations and gives you peace of mind in the event of a covered loss, no matter the size of your business, your sales figures, or your future plans.



► Learn more

Check out other resources from our experts.

- » [Starting a business: When to buy business insurance | Promutuel Insurance](#)
- » [What are the mistakes to avoid when choosing business insurance? | Promutuel Insurance](#)
- » [How to choose the right business insurance | Promutuel Insurance](#)
- » [How to select a business insurance deductible | Promutuel Insurance](#)
- » [Business Insurance: Take the time to make sure you're covered | Promutuel Insurance](#)
- » [Insurance risk assessment: How does it work? | Promutuel Insurance](#)
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