

2011

# Risk Management for Small Business Owners

By BOLT Insurance Agency



## **About BOLT Insurance Agency**

At BOLT, our mission is to protect business owners from the risks they face every single day, including the hidden risks.

BOLT is America's Business Owners Liability Team. Our Company is dedicated to delivering best in class insurance products and service for protecting small business owners.

We believe there is a better way to sell small business insurance and service customers. Traditional insurance agents often do not properly serve small business customers. We believe many of them may want to, but they cannot afford to service their small business customers. The BOLT Agency was built from the ground up to serve the needs of small business.

Our company understands that the insurance business is complicated. We also appreciate the demands on your time and energy. We efficiently help you determine which of our nationally respected insurance carriers are a good fit for your business.

The BOLT Insurance Agency is headquartered in Farmington, CT. BOLT Agents are licensed and trained on a state-by-state basis.

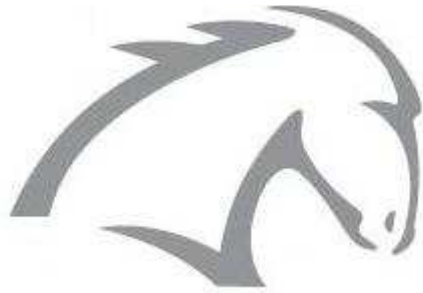
## **Why BOLT?**

BOLT is your Business Owners Liability Team – the better way to protect yourself.

BOLT is not your run-of-the-mill insurance agency. Traditional insurance agencies focus their efforts on their larger clients. Small business customers often suffer as a result.

Unlike many other agents, BOLT agents:

- Treat you like you're a big business
- Get small business. It's all we do.
- Suggest only the insurance you need.
- Speak plain English, not "insureeze."
- Take the time to learn the risks you face every day
- Value your precious time.
- Work with reputable carriers you can count on.



*“If you are a small business owner you ARE the Risk Manager”*

One thing all businesses, large and small, have in common is risk. In fact, the only way to avoid all risk is to not go into business at all. What separates small business owners and larger business executives is the resources they have available to plan for and to handle the effects of risk when it occurs.

The majority of major corporations employ a full-time risk management officer who is then responsible to identify possible loss risks to the company and develop strategies to eliminate or at least minimize those risks. That risk manager then works with various departments in the corporation to formulate procedures to identify controllable losses as well as steps to take in the event of uncontrollable losses. This usually involves a combination of contingency funds, insurance strategies, and constant evaluation.

Small businesses not only face the same possible risks and losses as corporations but generally operate on much narrower margins. Additionally, few small businesses can afford to budget for an additional employee to take on in such a role. The end result is that the you, the small business owner becomes the sole person responsible for understanding what is involved in risk management, identifying potential areas of risk, and arranging for affordable procedures and insurance policies to protect your business against loss. If you own a small business owner you ARE the Risk Manager.

## **TABLE OF CONTENTS**

### **Section 1 – RISKS AND RISK MANAGEMENT**

Why every business is a risky business  
Controllable Risks (what is it, plus examples)  
Uncontrollable Risks (what is it, plus examples)  
Definition and Explanation of Risk Management

### **Section 2 – IDENTIFYING EXPOSURES TO RISK**

Why it's important to identify exposures your business may face  
Liability Losses and Examples  
Property Losses and Examples  
Business Interruption Losses and Examples  
Key Person Losses and Examples

### **Section 3 – MANAGING RISKS**

Importance of Limiting Exposure to Loss by managing the 3 types of risks  
Avoiding risk and Examples  
Risk retention and Examples  
Transferring risk and Examples

### **Section 4 – INSURANCE & YOUR RISK MANAGEMENT PROGRAM**

How an insurance agent that specializes in business insurance can help you with risk management  
Identifying risks that could affect your business  
Creating a risk management plan

### **Appendix A – Sample BOLT Comparison Report**

### **Appendix B – Coverage Glossary**

## **Section 1 – RISKS AND RISK MANAGEMENT**

### **Why every business is a risky business**

Many an entrepreneur has made the mistake of thinking some businesses are risky while others are not. While some types of businesses are, by their nature, more risky than others the truth is, risk is an inherent part of being in business. Some aspects of business risk are completely out of the control of the business owner: natural disasters, governmental changes, world events that affect availability to materials, and the list goes on. Every business is risky because commerce depends on many factors that aren't totally controllable by the business owner. The reality of the tenuous nature of small business is seen in the high failure rate among start-ups.

What will separate your business from others that fail is not the elimination of risk but rather sound risk management policies and advanced planning. The greatest challenge for the small business owner is finding an acceptable balance between profitability and peace of mind. Risk management isn't about eliminating all possible negatives outcomes but rather recognizing potential controllable risks ahead of time and keeping the business path under control in the case of those uncontrollable risks that are certain to come along. In other words, as the captain of your business ship, you have to read the weather charts before the storms come and be prepared for whatever it takes to navigate through them.

### **Controllable Risks**

Don't confuse controllable with guaranteed outcome. A risk is controllable if there are direct actions you, as a business owner, can take to manage those risks. Some examples of controllable risks include:

- Salaries and Benefits
- Operating Costs – includes equipment, building, utilities, other general operating costs, and taxes.
- Projected income from sales and services

All of these are controllable because you can take active steps to minimize losses due to these risks. Salaries and benefits can be negotiated and the workforce can be cut back. Costs from taxes are foreseeable and there are number of steps a business person can take to cut back on operating costs while continuing to operate. Even projected income can be managed through various direct efforts to increase sales and profitability.

**Uncontrollable Risks**

Every successful business person recognizes risks will occur that are neither preventable nor controllable. In fact, what often separates businesses that last and those that do not is how well they react to such uncontrollable risks. Such risks include:

- **Economic Shifts** – No matter what anyone tells you, forecasting long-term economic conditions is often as accurate as asking a Magic 8 ball whether you should get married or not. With the advent of the Internet age, trends can shift dramatically in a very short time. A small business may be thriving but depends on trade with a neighboring country only to see the value of the dollar suddenly plunge driving its operating costs up. Locally, the closing of one major industry can have a trickledown effect leaving a small business with clients who can no longer afford its services. You're coffee shop that thrived on the early morning breakfast crowd suddenly finds itself with the plant next door closed. Now what?
- **Unexpected Trends** – Fads and unexpected changes in customer expectations often catch whole industries off guard.
- **Competitors** – The entrance of a larger competitor a small business is unable to compete with.

**Definition and Explanation of Risk Management**

Risk management involves identifying and evaluating events that can possibly cause loss to a business. Think of risk management as a preemptive strike against enemies to your businesses that exists but have yet to show themselves. Just as communities have disaster preparedness plans in place in the case of a tornado or other natural disaster, every small business owner should have a risk management plan that minimizes controllable risks and offers steps to take in the case of on some uncontrollable risk.

## **Section 2 – IDENTIFYING EXPOSURES TO RISK**

### **Why it is important to identify exposures your business may face**

#### **Liability Losses and Examples**

Every business has a legal requirement to conduct business in a way that does not, either willingly or through negligence, cause damage to someone else's property or cause personal injury. All businesses are required to take reasonable precautions to ensure their operations prevent damage and injury. Failure to take these reasonable steps to prevent such things from happening is likely to lead to litigation, an added expense to already tight budgets. Some typical liability losses faced by small business owners include:

- Damage to the property that you are being paid to work on.
- Damage to property belonging to people other than clients/customers.
- Injury to clients, customers, or employees either on your premises or off premises at a job site.
- Injury to people other than clients, customers, or employees who may be in the vicinity of your premises or job site.

Take the time to wisely consider the potential liabilities faced by your business. Evaluate which are more likely to occur and which could result in the greatest loss. Take the time and resources necessary to focus on those potential areas of greatest loss and identify ways to minimize those losses.

#### **Property Losses and Examples**

A small business faces no greater immediate risk to its viability than through property loss. Lack of insurance or inadequate coverage for an essential vehicle or piece of equipment can be the difference in continuing in business or closing down. There are three types of property loss every small business should be prepared for:

- **Physical Damage** - Property damage can result from a number of common occurrences such as fire, flooding, storms and vandalism. To manage efficiently with the possibility of physical damage to property, a business owner must consider more than damage to or destruction of a building. Contents and inventory are often more susceptible to damage when the building itself

is relatively unscathed. Manufacturers can lose both raw materials some of which cannot be replaced in a timely manner. Merchants can lose inventories that, if replaced all at once, would result in financial disaster. Another element that businesses often fail to consider is the loss caused by destroyed accounting records, making it challenging to bill or collect from customers. Essential machinery and equipment can become inoperable, and, if replacements can't be found and installed immediately, the business may even be forced to temporarily shut down.

- **Loss of Use** - Government agency can close a business for a number of reasons including violating health and safety regulations. A local health department can close a restaurant because of unsanitary conditions. Many such losses are often uninsurable unless caused by an insured peril such as smoke damage. A downed utility line may shut down an entire block for a day or more. While property may be insured, the profit lost by being unable to operate is often catastrophic.
- **Criminal Activity** - Burglary and robbery are obvious risks but others can be even more damaging. Employee theft, embezzlement, and forgery often cause more damage than the one-time robbery. Merchants, in particular, may need protection against losses caused by forged checks or unauthorized use of credit cards.

### **Business Interruption Losses and Examples**

Business Interruption Insurance covers income lost as the result of a natural catastrophe or accident that forces you to close business. Such events can include tornados, hurricanes, fires, and floods that might cause you to be out of business from days to even months.

The types of catastrophes covered vary widely based on your region or, at times, even the part of the local area a business is located in. Business owners need to be aware of special conditions that may apply to their business based on where it is located. Check with an insurance agent about what is available in your area, what it costs, to determine whether this is a risk you should have covered.

The purpose of business interruption coverage is to leave your business in the same position it would have been had there been no loss due to the damages your incurred. Measuring the loss includes taking into consideration a number of factors such as sales, production, and inventory loss. A small business needs to be prepared to prove there is an actual Part of risk management involves maintaining good records before such an event. Proving past profits is essential.

A "standard business interruption policy" protects your business from losses occurred from the time of the damage until the property can be repaired or. Depending on your insurance policy this period will



either be referred to as the period of suspension, the period of restoration, or the business interruption period. Determining this period of time often becomes an issue of disagreement so be sure and work closely with your insurance agent to insure this procedure goes as smoothly as possible.

### **Key Person Losses and Examples**

Small businesses are, by their nature, personality driven. More often than not the business owes its very existence to the vision, drive, and expertise of one or two people. When it comes to risk management this is probably the one “what if” most small business owners either unintentionally or intentionally fail to consider. In fact, many small businesses do not survive the loss of a key person in the organization specifically because there was no contingency plan for such a thing happening. There are four key persons in many small businesses for which there should be some type of loss protection.

#### **Owners**

There are some questions that need to be asked and answered beforehand. If you suffer a long-term illness or disability what will your source of income be? Should you be unable to resume duties, who will become the principle of the business? Is anyone being trained for such a possibility? What plans are in place to find someone outside the company should no one on the inside be qualified to assume the duties formerly carried out by you? Should you die there are even more questions to be answered. Will the business continue on, be inherited by a family member or someone else, or will it close? If the business is to be sold where will the working capital come from to operate during the interim period? How will tax liabilities be settled if the business is inherited?

No one likes to think about such things but they are very real possibilities. It is doubtful you worked as hard as you have to build your business with no idea what will happen to it should you become disabled or worse. Answering these questions about loss prevention in the event of the loss of an owner is best answered by the combined resources of the business’ insurance agent, accountant and attorney. Tax codes, estate planning and changing legalities are far too complex for most already overworked small business owners to sort through.

#### **Partners**

More than one fairly new building lies empty because of an unexpected exit of a partner. Binding agreements made before-hand are necessary to avoid the dissolution of a business when one partner dies. Without such an agreement the surviving partner is only allowed to close out the affairs of the business and then close. Worse yet, the surviving partner becomes personally liable for any losses due to insufficient assets to cover business indebtedness.

Partners may set up agreements for the surviving partner(s) to purchase the deceased partner's interest at a prearranged valuation. Business life insurance on each partner can provide the funds needed to

purchase that interest.

### **Loss of a Key Person**

In many small businesses there are one or two faithful employees that have run the day to day operations of the business years. How would the sudden loss of such an employee affect the business? What plans are in place to protect the business against financial loss from suddenly not having such a key person?

### **Section 3 – MANAGING RISKS**

#### **Importance of Limiting Exposure to Loss by managing the 3 types of risks**

Risk management is exactly what the term implies; it isn't the elimination of all risk but rather managing risk in such an acceptable way the business remains profitable and viable. As stated earlier, total risk avoidance also means the death of a business. To totally avoid risks means either not going into business in the first place or being so cautious one cannot react aggressively to the changing marketplace. Risk management, therefore, is limiting a business' exposure to the consequences of risk.

#### **Avoiding risk and Examples**

Sometimes a small business has to weigh potential profits against potential liabilities and decide to avoid a certain risk completely. An RV park, for example, may have a small water slide for the enjoyment of its patrons. After studying the cost of liability compared to the profit made from extra guests the wisest decision proves to be closing the water slide. What business might be lost is minimal compared to the risk involved to the business.

#### **Risk retention and Examples**

Sometimes called "self-insurance" risk retention is the risk a small business assumes to itself apart from insurance coverage. Every business already practices some form of risk retention in the form of deductibles. In such a case a company agrees to assume a certain percentage of economic risk with the insurance carrier covering the balance. And almost every organization retains some form of risk in areas that are either so remotely likely to happen or so costly it doesn't make good business sense to cover that risk

- A simplified example – You won an ice vending machine on a deserted stretch of road in Texas. While obtaining insurance coverage against theft, fire, and damages you choose not to take flood insurance. Floods are so rare in that part of Texas you decide to retain the risk.

Small businesses should have a contingency fund for such occurrences. This fund allows the business to go operate as usual without borrowing money. The amount that should be kept in a contingency fund should be based on a number of factors determined by the owner or someone acting as a risk manager. One alternative to the owner handling this task is to contract a consultant that specializes in risk management. There is no specific formula to define risk retention amounts. A consultant will go over the benefits of retaining a specific risk with a business in detail. Insurance is essentially a method of

transferring the risk from the business to the insurance company, which can come with a markup of up to 50%, which is not a good choice for a smaller risk

Regardless of the size of the business, risk retention and a contingency fund should be a major part of any business plan. A risk retention consult is well worth the potential savings in insurance costs. Correct planning will make a company operate more smoothly and be able to deal with difficulties with minimum.

### **Transferring risk and Examples**

Insurance coverage is the most obvious form of risk transference. When a business takes out liability insurance it is transferring a portion of its potential risk to an insurance carrier. In many cases this is not only a wise choice – it is essential. A small business often has such a small margin of error that one uninsured accident can mean an end to the business. Every small business must have a comprehensive insurance strategy to transfer potential risk. Some other ways a small business can transfer risk include:

- Contracting - Rather than hiring in-house maintenance people who are often exposed to high risk activities a small business can contract that work out to a maintenance supplier that is bonded and insured. That way the risk associated with injury or transferred to the contractor. Many small businesses are learning to contract out the majority of such intermittent labor. It often makes better business sense to contract with a delivery company to make monthly deliveries to that one customer who is out of town rather than bear the liability of a vehicle and driver for a once a month activity.
- Staffing Agencies – In this case a business leave hiring, firing, compensation, and benefits to be handled by a third party. Such companies are bonded and thus carry the greater risk that might be incurred due to some illegal activity by the employee and don't have to spend time and energy on insurance issues.

## **Section 4 – INSURANCE & YOUR RISK MANAGEMENT PROGRAM**

### **How an insurance agent that specializes in business insurance can help you with risk management**

An agent that specializes in small business insurance can be an invaluable partner. Because they are trained in the field and keep up with the latest issues involved an agent can often serve as the only consultant a small business needs for its risk management strategy. Most agents will do at least an annual walk-through the business to assess additional coverage needed and to provide suggestions on ways to limit risks.

### **Identifying risks that could affect your business**

The first thing small business owner should do is consult with his or her insurance agent to identify potential risks. Many insurance agents can also provide:

- Legal Defense – If your business is involved in a lawsuit that is part of a claim covered by your insurance policy liability coverage usually includes legal defense at no additional charge.
- Inspection services – Your insurance provider should be able to provide you with a certificate of inspection as proof you have obtained certified inspection as required by your local municipality or county.

In many cities, local community colleges provide free seminars to local business owners that cover areas such as risk management. If your business is in an area that has known potential disaster risks it is important to attend disaster preparedness meetings.

### **Creating a risk management plan**

Formulating a risk management plan doesn't have to be as complicated as it sounds. With a good insurance agent, solid bookkeeping and inventory control, and a few hours dedicated to the principles in this white paper most small business owners can come up with a sound plan for risk management. Every small business should create a workbook that identifies controllable risks and includes a checklist for steps planned to cover those risks as effectively as possible. The workbook should also cover contingencies for uncontrollable risks and suggest plans for setting aside some percentage of the business budget for such contingencies.

## **Appendix A**

### **Sample BOLT Comparison Report**

Dear Business Owner,

We are very excited to introduce a new tool in protecting your business. Business Owners Liability Team, Americas Small Business Insurance agency, is now offering a **Real Time Coverage Comparison**. This independent comparison is customized for your business, and we are the only Independent Agency offering this today. As you know, it is very important to review your business and its protection at least once a year and our new Real Time Coverage Comparison will help you get the Right Coverage at the Right Price.

BOLT is America’s Business Owners Liability Team, and we are dedicated to delivering best in class insurance products and service for protecting small business owners. The BOLT Agency was built from the ground up to serve the needs of small business.

Small business is all we do. We understand every business owner’s situation is unique. We work with you to learn your business and better understand the risks unique to you. We also help you learn from other businesses in your industry.

We speak "plain English." BOLT agents help you sort through the complicated world of business insurance. You understand what’s covered, what’s not covered.

Let us do the work. You have enough to do running your business. BOLT agents are like having an insurance manager on your staff. We let you know about renewals BEFORE its time to renew so you can make better choices. BOLT agents don’t pester you in the meantime. We let you focus on what you do best, your business.

Let us help you protect what you have built - **It’s TIME TO BOLT!**

Sincerely,

Your Business Owners Liability Team

The image shows a 'Covered Glossary' and an insurance comparison table. The table compares three policies: CNA, CNA, and CNA. The columns represent different policy features and their corresponding costs. The rows list various insurance coverages such as Liability & Property, Employee Dishonesty, Accounts Receivable, and more. The table is tilted and partially overlapping the main text.



Proposal Prepared For: John Smith  
**Commercial Insurance Proposal**

**Address:** 555 Your St.  
Your Town, CA 92020  
Presented by BOLT Insurance

**Company Name:** Smith Associates

**Proposal Date:** 01/01/2011

**Policy Effective Date:** 02/01/2011

**Application ID:** 0001-0001-1010





\* The following quotes are only estimates and are not a contract, binder or agreement to extend Insurance coverage. Your actual rates may be different depending on the underwriting criteria of each Insurer and the specific characteristics of your business. These preliminary quotes are available for your review for 30 days, after which we will need to re-quote. Hopefully this 30-day review period will work for you.

<b>General Liability and Business Property</b>				
NEED HELP DECIDING ON A QUOTE? Call 1-877-857-EDGE (3343) or schedule a call with one of our agents.				
	 POLICY PREMIUM <b>\$506</b>	 POLICY PREMIUM <b>\$570</b>	 POLICY PREMIUM <b>\$1,102</b>	 POLICY PREMIUM <b>\$1,175</b>
Property Deductible	\$1,000	\$500	\$1,000	\$500
Employee Dishonesty	\$25,000	\$25,000	\$10,000	\$25,000
Accounts Receivable	\$25,000	\$125,000	\$50,000	Blanket Limit
Valuable Papers	\$25,000	\$125,000	\$50,000	Blanket Limit
Computers and Electronic Media	\$50,000	\$50,000	\$10,000	Blanket Limit
Contents/Equipment Used Off Site	\$25,000	\$25,000	\$15,000	\$15,000
Business Income	Actual Loss Sustained for 12 Months	Actual Loss Sustained for 12 Months	Actual Loss Sustained for 12 Months	Actual Loss Sustained for 12 Months
Temperature Change	-	-	\$10,000	Blanket Limit
Business Liability	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Medical Expenses	\$10,000	\$10,000	\$10,000	\$10,000
Employment Practices	\$10,000	\$10,000	\$10,000	\$10,000
Non-owned Auto Liability	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Hired Auto Liability	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
<b>Location #1</b>				
BPP (Equipment and Inventory Limit)	\$50,000	\$50,000	\$50,000	\$50,000
Sewer or Drain Back-up	\$25,000	\$25,000	-	-

# **APPENDIX B**

## **Coverage Glossary**



## Coverage Glossary

<b>Property Deductible</b>	Insurance coverage does not apply until the amount of a loss exceeds the value that has been selected as a deductible.
<b>Employee Dishonesty</b>	This insurance provides coverage for any financial losses to your business resulting from acts of dishonesty by employees during the course of their employment by you.
<b>Accounts Receivable</b>	Coverage that protects businesses against their inability to collect accounts receivable because of the loss of supporting records that have been destroyed by a covered cause of loss. Also covered are the extra collection expenses that are incurred because of such loss or damage and other reasonable expenses incurred to re-establish records.
<b>Valuable Papers</b>	This insurance provides coverage for replacement of a commercial operation's valuable papers, records and forms including electronic media. Typically, coverage is limited to the cost of recreating or restoring the lost or damaged documentation.
<b>Computers and Electronic Media</b>	This insurance provides coverage for losses to computer data and media as a result of a covered cause of loss.
<b>Contents/Equipment Used Off Site</b>	This insurance provides coverage for your insured business personal property and equipment while being used away from the insured location.
<b>Business Income</b>	This insurance provides coverage for lost business income when your operations are suspended temporarily due to a loss that no longer allows you to conduct business at your current location.
<b>Temperature Change</b>	Covers loss caused by the spoilage of perishable products. The limit may not exceed the limit you have selected for your equipment and inventory.
<b>Business Liability</b>	Provides protection for your company in the event that you cause certain injury to others. This could include injury or damage to a person or property. It does not include professional liability for your errors or omissions.
<b>Medical Expenses</b>	This insurance provides protection to pay the cost of medical care to an injured party regardless of whether the policyholder is liable.
<b>Employment Practices</b>	This insurance provides coverage for legal costs to defend claims involving sexual harassment, wrongful termination and discrimination including legal liability for such acts.
<b>Non-owned Auto Liability</b>	This coverage option is not available to applicants possessing a policy covering other commercial automobile exposures. Non-owned auto coverage should be written on the policy providing coverage for the owned vehicles. This coverage is not available for the following business classifications: <ul style="list-style-type: none"> <li>- Delicatessens</li> <li>- Florists</li> <li>- Pizza Carry outs and Restaurants</li> <li>- Photo Finishing Labs</li> <li>- Real Estate Firms</li> <li>- Office - Newspaper Publishers</li> <li>- Fresh Fruit/Vegetable/Baked Goods Bouquet or Arrangement Stores</li> </ul>
<b>Hired Auto Liability</b>	This coverage option is not available to applicants possessing a policy covering other commercial automobile exposures. Hired auto coverage should be written on the policy providing coverage for the owned vehicles. This coverage is not available for the following business classifications: <ul style="list-style-type: none"> <li>- Delicatessens</li> <li>- Florists</li> <li>- Pizza Carry outs and Restaurants</li> <li>- Photo Finishing Labs</li> <li>- Real Estate Firms</li> <li>- Office - Newspaper Publishers</li> <li>- Fresh Fruit/Vegetable/Baked Goods Bouquet or Arrangement Stores</li> </ul>
<b>BPP (Equipment and Inventory Limit)</b>	Business personal property includes, but is not limited to: inventory, furniture, supplies, equipment, phone systems, computers, other machinery, and property of others in your care at your business location.
<b>Sewer or Drain Back-up</b>	This insurance covers damage caused by water that backs up, overflows or is otherwise discharged from a sewer, drain, sump, sump pump or related equipment as a result of a covered cause of loss.