

Ultimate Guide to Commercial Insurance

When it comes to protecting your business, you want the right coverage to protect your assets. But where should you start?

Read below for all you need to know about commercial insurance.

Commercial Insurance

Commercial insurance is the best way to protect your business [4]. Though not always mandatory, there are a few policies that are legally required and others that are very beneficial to carry. In most states, workers compensation insurance is obligatory. Oftentimes, unemployment insurance and disability insurance are also compulsory [7]. Obtaining commercial insurance is worthwhile because it protects your business from physical damages, business interruption, loss of projected income, and the costs associated with a claim or lawsuit [7].

There are two types of commercial insurance: [property](#) and [casualty](#). The first, property insurance, can be broken down into four categories – commercial property, inland marine, boiler and machinery, and crime. Casualty insurance comprises commercial automobile, commercial general liability, commercial umbrella, and workers compensation [2].

Property Insurance

Property insurance includes commercial property, inland marine, boiler and machinery, and crime. “Property insurance provides coverage for property that is stolen, damaged, or destroyed by a covered peril” [2].

Commercial Property

The three categories covered under commercial property insurance, also called business property insurance, are commercial property (the building(s)), business personal property, and personal property. Commercial property comprises the building itself as well as permanently installed fixtures, machinery, and equipment. Business personal property consists of fixtures, machinery,

An important stipulation within commercial property insurance is **coinsurance** (or the coinsurance clause). This term means that the building must be “insured to full value.” If not, the business could face a monetary penalty [2].

and equipment that is not permanently installed as well as furniture and other items that the business owns. Personal property includes any property that is stored on premises that does not belong to the business. Though it is not owned by the business, it is in the care, control, or possession of the business [2].

What happens in the event of a loss?

Special Peril v. Open Peril

Losses covered under commercial property insurance depend on the type of insurance you purchase. There are two types of coverage available: special peril or open peril [2]. According to the National Association of Insurance Commissioners, a peril is “an insurance term for a specific risk or reason for a loss,” [5]. A specified perils policy is a list of perils that are covered, while an open peril policy covers damages for any peril that is not specifically included. As mentioned in the California Department of Insurance’s Commercial Insurance Guide, you typically have the choice between basic and broad specified perils coverage. To read the list of basic and broad perils, visit our [Ultimate Guide to Homeowners Insurance](#). Open peril policies often exclude earthquakes and floods [2].

Loss Valuation Types

As mentioned above, the coinsurance clause requires the building in commercial property insurance be insured to the full value. The coinsurance clause applies to respective loss valuation types. The most common valuation method for commercial insurance is actual cash value [2]. According to the Hartford, it is calculated “by subtracting the depreciation from an item’s replacement cost value” [6]. Two other methods of loss valuation are agreed value and replacement cost value. In the case of agreed value, the coinsurance clause is not in effect. Instead, the sum paid out for the loss is a predetermined “agreed-upon” amount. Replacement cost is subject to coinsurance and replaces the damaged property “with new property of like kind and quality up to the limits of insurance,” [2].

Endorsements

There are also several endorsements (additional coverages) that can be added onto a commercial policy. For a detailed description of each, visit the [California Department of Insurance](#). Some common endorsements are listed and their coverages summarized below:

Endorsement	Description
Builder’s Risk	- Added to a policy for at least one year to provide protection for a new building under construction or an existing building undergoing renovations or repairs
Legal Liability or Fire Legal Liability	- “Provides coverage for negligent acts and/or omissions, must be accidental and caused by a covered peril”
Building Ordinance or Law	- Coverage for the enforcement of a law or ordinance that requires demolition or removal of an existing building, repairs, or reconstruction
Improvements and Betterments	- “Usually added by a lienholder,” covers improvements that cannot be removed when a tenant leaves
Glass	- Coverage for broken glass and damages caused by broken glass due to vandalism, a separate form is required when there is a large amount of glass
Peak Season	- Additional coverage for property during a “designated period of time”

Inflation Guard	- Automatically adjusts limits to keep up with inflation, protects against coinsurance penalties in the event of a loss
Time Element	- Covers losses that happen as a result of a direct loss (if a fire burns down a building, several elements of the business are affected besides just the building and its property)

Inland Marine

Unlike the name might suggest, inland marine insurance is not for insurance related to watercraft. It is a type of transportation insurance, covering “damage to or destruction of your business property while in transport.” It also extends coverage to “property in your care, custody or control during transport.” Perils commonly protected against include fire, lightning, windstorm, flood, earthquake, landslide, theft, collision, derailment, overturn of transporting vehicle, and bridge collapse. Some coverage forms included in this type of insurance are accounts receivable insurance, equipment floaters (contractors equipment), motor truck cargo insurance, trip transit insurance, valuable papers (records) insurance. [2].

Boiler and Machinery

Boiler and machinery insurance, also known as systems protector, systems breakdown, or machinery breakdown insurance is an important coverage to have. “Most commercial property policies exclude losses from boilers and machinery,” so this additional insurance is necessary to provide coverage in the event of a loss [2]. Boiler and machinery insurance provides coverage to business property, other property losses associated with the breakdown or malfunction of machinery, and any legal fees associated with a suit [2].

Crime

Crime insurance covers losses arising out of criminal activity. The amount of coverage provided is dependent on the package you purchase. Some of the causes of loss against which this insurance protects are robbery, burglary, larceny, forgery, and embezzlement [2].

A common type of business insurance is a commercial package policy, “which combines two or more commercial coverage parts with commercial property.” Common package components include commercial property, general liability, and commercial auto [2].

Casualty Insurance

As detailed by the California Department of Insurance, “Casualty insurance provides coverage primarily for the liability exposure of an individual business or organization,” [2]. Casualty insurance covers “negligent acts and omissions of an individual, business or organization that causes bodily injury and/or property damage to a third party,” [2]. The main lines are commercial automobile, commercial general liability (or just general liability), commercial umbrella, and workers compensation [2].

Commercial Automobile

Commercial automobile insurance offers a variety of coverages for your business needs. Business auto policies (BAPs) can provide coverage for different classes of vehicles, including business, personal, non-owned, or hired autos [2]. Commercial automobile insurance covers legal and medical costs for injuries or property damage and physical damage to the vehicle caused by accidents, theft, or natural disasters [3]. Coverages given to an auto depend on a number of factors,

Vehicles are classified as **non-owned** when they are personal vehicles driven for work. **Hired autos** are hired or leased vehicles used for business purposes [3].

including weight and type of use. They are organized by symbols and a numerical system (that ranges from 1-13). Unlike most personal automobile insurance, commercial auto insurance has a combined single limit. The limits are often also much higher than personal automobile limits. For example, an automobile on a commercial policy might have a combined single limit of \$500,000 or \$1,000,000 [2].

Commercial General Liability

Commercial general liability (CGL) is the standard policy for insuring businesses. It is a comprehensive insurance policy, covering all perils “within the scope of the insuring agreement,” unless specifically excluded. It also insures new buildings and business activities throughout the term of insurance [2].

Parts of a CGL Policy

According to the U.S. Chamber of Commerce, commercial general liability covers liability issues relating to property damage, bodily injury, and legal advertising [4]. The coverage sections on a CGL are “premises liability, products liability, completed operations,” and slander and libel protection. Premises liability provides coverage for any accident that occurs on the premises of the business due to negligence. Products liability pays for losses associated with defective products or any breakdown in products causing danger or harm. Completed operations protects against bodily injury or property damage liability associated with the finished product [1],[2].

Exclusions

Though CGL is comprehensive in its coverage, there are exclusions. Intentional injury, employee liability, war, failure to perform, among others are common ones that apply. Workers compensation is also excluded as it requires separate coverage [1],[2].

Rating

NAICS codes, used to provide statistical data for the business economy, help rate CGL policies. The codes indicate common exposures for which your business will need coverage [2],[10].

According to the National Association of Insurance Commissioners, an **exposure** is a risk of possible loss [5].

An **aggregate limit** is defined as a limit that once reached (even if there have only been a few claims) exhausts funds to be paid out until the end of that policy period [2].

Limits

With regards to limits of insurance, several coverages on CGL policies have an aggregate limit. Some of them include general liability, fire legal liability, and advertising and personal liability [2].

Commercial Umbrella

For losses over the aggregate limit, there is additional insurance in the form of commercial umbrella Insurance. It covers commercial automobile, commercial general liability, workers compensation, and any other type of business insurance. The umbrella policy is unique in the way that it pays out losses. A self-insured retention (SIR), which is an amount similar to a deductible, must be paid before the umbrella policy coverage can be released. A typical SIR amount is \$10,000 [2].

Workers Compensation

Coverages

Worker's compensation is coverage for employees or workers who get injured on the job [2]. Employers in many states are required to carry this insurance for employees [8]. Unlike other insurance policies where one must prove a loss occurred, it is assumed the loss was not the fault of the worker under workers compensation. There are two coverage sections in a workers compensation policy. The first is the section that pays out benefits and other compensation for a worker's injuries based on the state's laws. The second section provides payment for lawsuits against the business as a result of the injuries (such as loss of consortium, consequential bodily injury, "third party over actions") [2].

Payout and Classification

The amount paid out in the event of a loss depends on the level of risk in the jobs assigned to your employees. Classification for these risks are most often determined by the Workers Compensation Insurance Rating Bureau (WCIRB). Each classification has a rate assigned to it, and those rates in turn contribute to the premium determined for the policy. The WCIRB also generates an experience modification to be applied to the policy. The WCIRB's obtains a value for experience modification by analyzing loss data submitted each year [2].

Business Owners Policy

A Business Owners Policy or BOP is for smaller businesses [8]. California DOI's article refers to these small businesses as "main street" businesses, like the small businesses you would find in a small town's downtown area. For these establishments, underwriting guidelines are stricter than with other commercial policies- even limiting the square footage of the business for eligibility. Examples include a barber's shop, a small retail shop, smaller apartment complexes, accountant offices [2].

Purpose and Packages

While a BOP can be customized based on the needs of the business, one of its main purposes is to provide for a quick reopening of the business in the event of a loss. It combines property and casualty/liability insurance into one package policy. A common package includes [general liability](#), business property, and business interruption. General liability provides protection in the event of a lawsuit, specifically for events such as negligence, bodily injury, property damage, libel and slander. Business property insurance protects the building itself and business possessions used to operate the business. Business interruption insurance can help prevent your business from compounding losses if unforeseen circumstances occur. For example, in the event of a temporary shutdown due to a fire, business interruption can pay the bills and the wages of employees until the business is restored [7].

Additional Coverages

Some additional coverages available with a BOP are [workers compensation insurance](#), professional liability insurance, commercial auto insurance, and data breach insurance. Professional liability insurance provides protection for the business in the event of negligence in professional services. [7]. Data breach insurance or cyber liability insurance covers losses due to a cyber-attack. It provides monies to inform those affected by the breach, offers aid in the form of theft monitoring services, and initiates a public relations response [8].

Check out this video from Hartford for more information:



How Are Policies Rated?

The way policies are rated depends on the line of insurance and more specifically, their exposures. Examples of rating exposures include the type of construction of the building, the fire protection class, payroll, gross sales, etc. Deductibles will also be calculated into the rate. A higher deductible can help bring the cost down, as the deductible will be calculated in the overall rate [2].

A **deductible** is the amount of insurance that is paid out of pocket before insurance pays for a claim. In commercial policies, it is called an “absolute dollar amount,” [2].

Other factors used to determine the rate are [experience modifications](#), schedule rating, or judgement rating [2]. Schedule rating sets premium prices based on individual risk factors. Some of the factors schedule rating considers are the business nature, location, safety measures, claims history, physical condition of the business premises, size and scale of operations, and employee training and experience. The benefit of schedule rating is a more transparent and accurate rating for the policy [6]. According to the California Department of Insurance, a judgement rating is “a rating modification (either decrease or increase) that is based on the underwriter’s experience, best judgment, and analysis in classifying and underwriting a particular type of risk,” [9].

Loss Control

One way to aid in decreasing premium costs is by implementing loss control measures. The strategies you choose to use in order to prevent losses will depend on your type of business. Your agent or carrier underwriter along with other insurance personnel can help determine the best methods for your business [2].

Conclusion

Insurance is the best way to protect your business. From broader coverages like commercial general liability to narrower coverages such as inland marine, there are various ways to provide a safety net for your business in the event of a loss [2].

The two types of commercial insurance are [property](#) and [casualty](#). Property insurance includes commercial property, inland marine, boiler and machinery, and crime. Casualty insurance includes commercial automobile, commercial general liability (or just general liability), and workers compensation. Another type of commercial insurance, particularly for small businesses, is a [business owners property](#) policy or BOP. A typical package includes general liability, business property, and business interruption [2].

These policies are rated largely based on the exposures of a business. Factors such as [experience modifications](#), schedule rating, or judgement rating help determine the premium to be paid for a policy [2].

For help deciding which coverages are right for your business, give Mid State Insurance a call.

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