

CHAPTER 34

Property Insurance

Containing Your Risk

And you thought insurance was dull? The New Economy has bred new threats and thus new forms of coverage. Do you need any of it?

by Alison Stein Wellner

Flood, fire, death, even clerical errors. Until now, Stefan E. Szyszko, president of United Planet in Novi, Mich., has had the right insurance to cover just about any disaster that could befall his nine-person direct-marketing firm. He's not an insurance junkie. Mostly, Szyszko was motivated by the experience of a friend whose business burned to the ground, but got back up and running again in just three weeks' time using proceeds from his coverage.

But now, as United Planet moves into doing direct mailings for its clients by e-mail, Szyszko is plagued by a new set of what-ifs. "If we're subject to online vandalism and don't get our clients' mailings processed in the Christmas rush, they may want to come to us for restitution," frets Szyszko. "Our failure to get their marketing campaign out on time may cause our clients to lose revenue." Unwilling to take any chances, Szyszko is shopping around for newly available e-commerce insurance—despite a hefty premium of \$10,000 or more. That would boost the \$1 million company's annual business insurance bill to over \$20,000.

Doing business has always been risky, but as more small-business owners are finding, basic insurance may not do the trick in the global New Economy. Hackers mess with your Web site; someone steals your intellectual property; your international customer doesn't pay up; your worker gets injured abroad. While employee lawsuits aren't exactly new, they're on the rise, and you're more likely than ever to get hit with a big one.

If you aren't worried about these risks yet, just wait: The insurance industry is gearing up to ensure that you soon will be. Dubbing these lurking dangers "millennial risks," the insurers are rolling out new products, such as policies that cover e-commerce and other Internet-related risks and protect your intellectual property. They're also coming out with more affordable versions of existing products, such

as liability insurance to protect against employee lawsuits and policies that cover various global risks.

The timing is no accident. Insurers face their own new risks under deregulation, and competition promises to get brutal. This spring, the Financial Services Modernization Act takes effect, letting banks and brokerages compete with traditional insurers. State restrictions are easing, too. Meanwhile, small business is looked on as a ripe market.

Do you need all this new stuff? Perhaps. But before you invest in any of it, make sure you're covering the basics. "Small companies have massive amounts of neglected risk," says Anita Setnor Byer, a principal in Setnor Byer Bogdanoff Insurance, which caters to small businesses in Fort Lauderdale.

That said, new competition should bring lower prices and stepped-up service. Some of the new products clearly have value, depending on your industry and your state's regulations. Since there will be fewer of the latter, you will need to keep a sharp eye out for unscrupulous operators. Hack your way through the hype, and here's what you're likely to find:

Internet Risks: "When you venture into cyberspace, you are fundamentally changing the nature of your business risk," says R. Scott Wolff, vice-president of InsureCast, a New York insurance brokerage. In a recent survey of 521 large and small companies by the Computer Security Institute in San Francisco and the San Francisco FBI computer-intrusion squad, 62% of respondents reported unauthorized use of their computers, and 26% reported theft of proprietary information. Viruses affected 90% of the companies. Standard business-interruption insurance might not protect you from any of this. Only a handful of insurers, including American International Group Inc. and Chubb Corp., are writing policies to cover these cyber risks.

Depending on the coverage, a policy to protect your business online may cost anywhere from \$10,000 to \$150,000 a year.

Intellectual Property: If you're working in software development, advertising or Internet content—or hold important patents and trademarks—your most important asset is likely to be intellectual property. Intellectual-property insurance might protect you from lawsuits and cover legal costs if you need to sue someone else. Such policies will run at least \$5,000 to \$7,500 per trademark, patent, or copyright.

Think you can't get sued? Make Us An Offer Inc., a 10-person Net auction and e-commerce company

in Lawrenceville, N.J., is now in a patent battle with a larger rival over its Internet auction software. "What this is going to cost us is ridiculous—\$1 million in lawyers' fees easily," says CEO Robert Israel. "Intellectual-property insurance would have been really nice. In this world right now, you really need it." Problem is, before this happened, he didn't know there was any such thing.

From 1995 to 1999, intellectual-property lawsuits filed in U.S. district courts rose 40%, according to a report in Marsh Inc.'s *2000 Insurance Market Review & Forecast*. The insurance report predicts that lawsuits over patents, as well as copyrights, trademarks, and trade secrets, should continue their double-digit growth and—you guessed it—lead to more insurance products.

Global Risks: You may be selling products or services overseas or sending employees abroad on business. But a standard policy won't protect you if you're sued in another country. Ask your broker to find a policy that will, whether it's issued by a U.S. or foreign insurer. Insurers are now writing insurance for lower amounts of coverage and prices that don't break a smaller company's budget, says E. Martin Duggan, president of the Small Business Exporters Assn. in McLean, Va. Look at Transcon Trading Co. in Irmo, S.C., a 10-person exporter of animal health products such as nutritional supplements and grooming goods. The company has purchased export-credit insurance from the Federal Export Import Bank that covers losses in the event an overseas customer fails to pay on time. "We had a customer in England who went bankrupt owing us about \$30,000," says President Jerry W. Smith, who paid a premium equaling about 75 cents for each \$100 of insurance. The insurer paid 90% of Transcon's loss. Over the past several years, Smith estimates this insurance has saved \$100,000 in uncollectible accounts.

Employee Suits: No matter how lovable a boss you think you are, you might want to consider Employment Practices Liability Insurance, which has dropped 80% in cost over the past five years. Court rulings in recent years have expanded the liability of the employer into new realms. Discrimination lawsuits, for example, have nearly tripled during the past 10 years, with employment-related cases accounting for most of the growth, according to a recent report by the Justice Dept. These liability policies can run \$5,000 a year and up, and they'll generally cover legal costs and any judgment if you get sued for wrongful termination, sexual harassment, or sex discrimination.

How do you know if you need these? A good rule of thumb when considering newer insurance products is to think about what your business depends on—your computers, for example, or your intellectual

property—and how you would recover if you lost such an asset. Ultimately, the decision comes down to what risks you can in fact afford to run. A good broker or agent will do a risk assessment of your business—one that will consider such factors as the size of your workforce, your cash flow and your facility. Kevin Yeanoplos, president of Beacon Valuation Group Inc., a business appraiser in Tucson, has never seen a small company he thought was overinsured. Still, he says, not even the best coverage is foolproof: "For a small business, insurance is an attempt at looking into a crystal ball. But you cannot predict the future."

No, but you can reduce your exposure to liability with the proverbial ounce of prevention. That means safeguarding the security of your Web site, for instance, and establishing strong employment policies against discrimination. Sometimes avoiding risk is its own reward.

Just because insurers are rolling out new products for 21st century risks, don't forget the basics. What you need depends on your state, location, and industry.

BASIC PROPERTY protects against losses from theft, fire, lightning, windstorm, civil commotion, vandalism, and accidents. Additional fees will cover earthquakes and floods, and protect computers, phone systems, and other equipment.

WORKERS' COMPENSATION covers employees for work-related injuries and illness. The law requires it.

GENERAL LIABILITY pays out when your product or facility causes bodily injury or property damage. Covers cost of damages and legal fees.

PROFESSIONAL LIABILITY, also called errors and omissions insurance, covers suits for negligence or bad advice. If you provide professional services to large clients, you may be contractually obligated to carry this insurance.

DIRECTORS' AND OFFICERS' LIABILITY provides specific coverage in the event your board or your officers are sued.

BUSINESS INTERRUPTION replaces your income while your business can't operate, typically due to a natural disaster, power outage, or other factors beyond your control.

KEY MAN INSURANCE is a life insurance policy on a key individual whose death would harm the business. Depending on the size of your company, a traditional life policy may suffice.

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