

Insurance: Necessary Evil or Critical Component of Your Business Plan?

by Diane Goldman

As a successful executive you benefit from surrounding yourself with knowledgeable advisors. In fact, in today's ever changing landscape the professionals we choose can mean the difference between profit and loss.

Insurance is typically lumped into the "necessary evil" category. An expense that cannot be avoided, you purchase it and file it away hoping you never have to look at it again. However, insurance is an important part of your business plan and having the right advisor on your team makes all the difference. A professional insurance advisor should do more than sell you a policy. They should thoroughly assess what you have to protect and provide relevant guidance and advice.

This article demonstrates how insurance fits into four critical areas of your business: protecting assets, limiting liabilities, protecting income and controlling expenses. While every policy may not be appropriate to your business model, a solid understanding of what you own, what risks you carry, and what protection is available to you is something that every owner should possess.

PROTECTING ASSETS

A complete approach towards asset protection safeguards critical items listed on your balance sheet. Not every asset can or should be insured but full disclosure to your advisor ensures the design of a proper risk management strategy. For example, if you own or lease a building or business property, you already understand the importance of Commercial Property insurance; and if you own a fleet of automobiles an annual review should verify your policy is up-to-date. Other physical assets that require protection include specialty items required for you to manufacture, distribute, install, or deliver your product. In addition, ask about protecting your company accounts against employee theft as well as your products should they be damaged during shipping or delivery. Equally important are intellectual assets, such as clients' financial data and records, patent information, and any other valuable intelligence which is critical to the operation of your business. Finally, your employees cannot be ignored. Look into benefit plans that go beyond your basic obligation, differentiating you and making you a more attractive employer.

LIMITING LIABILITIES

Business owners carry a number of liabilities; some realized and some unanticipated. Proper insurance protection starts with General Liability. Areas that are often overlooked include the potential liability created by employees using company or personal vehicles while on company business; product liability exposures; and professional liability for those who are paid to dispense advice and consultation. One way to prevent crippling exposure is through Errors & Omissions coverage combined with best practices. Also, fiduciary protection provides an added layer of defense in the event that you have a lapse in the management of Employee Benefit Plans. Lastly, owners are increasingly subject to suits for misrepresentation in buy/sell transactions and when distributing profits to their investors. Challenge your advisor to discuss how Directors & Officers Liability may help allay these particular concerns and provide you with increased value.

PROTECTING INCOME

Business Income insurance is designed to ensure that your business is not crippled by an unanticipated loss of income due to a disruption in operations, whether from a natural disaster or the breakdown of critical equipment. It is essential that you purchase adequate limits to ensure that you and your employees can survive the downtime and that your customers are still there when you return. Another consideration is Contingent Business insurance, protecting you if your major supplier suffers a loss. Of course, we cannot ignore the contribution of key employees. Inquire about insurance that provides additional cash to assist you if that employee were to die or become disabled.

CONTROLLING EXPENSES

Traditional wisdom says less insurance and lower premiums contribute to expense savings. However, approaching the insurance buying decision in this manner is often a strategic mistake. In addition to a financial loss, inadequate coverage leads to mental stress, low morale, wasted time and resources, and in the worst case scenario, a shutdown of operations and bankruptcy. The proper approach is to thoroughly assess your assets and liabilities each year and discuss protection options with a qualified advisor. One of the most significant expenses for any company is Employee Benefits insurance. Used to retain and attract key talent, there are many options you may wish to consider, including Health Reimbursement Accounts, Health Savings Accounts, Flexible Spending Accounts, and Voluntary Benefits.

We challenge you to think of insurance the way you think of credit risk. If you manage your company credit properly then you benefit from reduced loan rates and better vendor relationships. Proper risk management, control of contractual liabilities, higher deductibles, and good safety plans pay you back with reduced and steady premiums through the years.

Your insurance agent should be one of your trusted advisors and if they have not discussed these areas with you they are doing you a disservice. We suggest that you challenge your advisor to talk about how insurance can play a bigger role in protecting you. Disaster strikes when we least expect it. The right advisor will help assess your risk and properly strategize a plan that will protect you, your employees, and your customers today and in the future. 🌸



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