



Home Based Business Insurance Needs

How to shop for home-based business insurance

Anyone who runs a business out of their home, no matter how small, faces the same risks as any other company. You need insurance to protect yourself against those risks, whether your home business is incorporated or you run it as a sole proprietor. Here are some insurance options for home-based business owners:

A standard home insurance policy does not cover home businesses. If that is all you have, there is a lot you could lose.

Home insurance policies do not cover structures used for business purposes. So if you are operating your business out of a renovated carriage house on the back of your property, you might be out of luck if it burns down.

Business personal property coverage in home insurance policies usually is limited to \$2,500 for on-premise protection and \$250 away from your home. So, if you take your laptop to a client's office, make sure it does not get lost or damaged.

Most home insurance policies provide no coverage for business data. That means if there is a fire and you lose all your books, files and software, there's no insurance compensation.

You are not covered if someone visits your house for business reasons and sustains an injury. Likewise, you are not covered if you cause the injury of someone else during the course of doing business.

If you write something, such as a press release or a business report, that causes economic damage to someone else, you are not covered.

To find out what insurance you need, take the time to sit down with your agent and talk. List your risk factors and prioritize them. There is loss-of-income insurance, business personal property insurance, personal and advertising injury insurance, on-premise liability, and off-premise liability to consider. If you give advice or write software, you should consider errors and omission (E&O) insurance, which will cover you if you are sued over an error.

Home-based business insurance checklist

- Business property
- Professional liability
- Business liability
- Personal and advertising injury
- Loss of business data
- Workers compensation
- Computer
- Life
- Loss of income
- Health
- Crime and theft
- Disability
- Commercial auto

Source: Insurance Information Institute

Questions to ask when selecting an insurance policy

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- What property is owned by my business?
- Where do I conduct my business?
- Do I have business vehicles?
- Do I have employees?
- Do I perform a professional service?
- Can someone sue me for providing incorrect information or making a mistake?
- If a fire occurs, will it shut down my business?
- Am I making a product?
- Do people come into my home?
- Will I be doing work off-site?
- Do I use my personal auto for business?
- If I'm injured while I'm working, what will happen to my business?
- How much is my equipment worth?

There are three basic types of insurance policies available to home-based business owners. Which policy you choose depends on a variety of factors, including how large your business is, the type of business you conduct, how much off-site work you do, the extent of your potential for liability — a fiction writer vs. a financial planner, for example — and how frequently you have business visitors to your home.

Option 1: Home insurance endorsements

You can increase protection from your homeowner's policy by adding an endorsement, or rider, to it. This is the least expensive option for protecting your business assets, but it also offers the least coverage and could leave you with a great deal of risk. A typical endorsement can cost you as little as \$25 per year and you can increase the policy limits from the standard \$2,500 to \$5,000. Some insurers allow you to raise the limit to as much as \$10,000.

If you are sued when the homemade cookies you sold make someone ill, you could be financially devastated. The homeowner's endorsement will not cover these costs. The endorsements also don't generally cover loss of income, workers compensation (which you must provide if you have employees) or other commercial coverage.

Still, some experts say an endorsement on a home insurance policy would be suitable for a small home business with minimal equipment and no business visitors or business

deliveries to the home. For example, someone who telecommutes part-time using a home computer and fax might find an endorsement a reasonable option.

Option 2: Home office policy/in-home business policy

An in-home business owner's policy is a step up from a homeowners endorsement. It is essentially home insurance and a business policy rolled into a single policy designed specifically for home-based businesses, eliminating gaps and duplications in coverage. These policies offer coverage such as business liability and replacement of lost income, and homeowners coverage such as fire, theft and personal liability.

An in-home business owner's policy will also cover lost income and ongoing expenses, such as payroll, for up to one year if your business is unable to operate because of damage to your home. It provides coverage for loss of valuable papers and records, accounts receivable, off-site business property and use of equipment. And it often has higher limits for off-premises business



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property and equipment-breakdown protection, as well as supplemental theft coverage. Some allow coverage for businesses that have up to three full-time workers.

They can also provide broader coverage such as protection against lawsuits for injuries caused by the products and services the company offers.

You can find these policies through home insurance companies and companies that specialize in stand-alone, in-home business policies.

A possible downside: Sometimes the insurers that offer these policies will also require you to purchase other policies through them.

This type of policy might be appropriate for a mid-level, growing company with several business visitors a week and high-end computer equipment. It wouldn't be suitable for people who conduct a large amount of their business away from the home.

Option 3: Business owners policy

A business owner's policy (BOP) provides the most comprehensive coverage for your home business. Many insurance companies have created specialized BOPs that are just as comprehensive as larger commercial policies but with prices suited to the home-office market.

Who might need a BOP? Businesses that stock inventory or manufacture products, those that conduct business out of a freestanding location and those at high risk for professional liability. BOPs can include:

- Structures used for business purposes, including any outbuildings, such as a renovated garage, carriage house or barn.
- Business personal property such as office furniture and electronic equipment.
- Business data, including printed material and software.
- Loss of income, which would cover income interruption in case you had a fire and had to move the business.
- Loss due to crime, such as theft.
- Premises liability, which would cover you if someone has an accident on your property during the course of your doing business with them.
- Off-premises liability, which would cover you in case you were on someone else's property and caused an injury or damage to property during the course of doing business.
- Personal and advertising injury, which would cover you in case you wrote or produced work that caused someone harm. This would include libel or slander.
- A BOP policy does not include workers compensation, health or disability insurance, professional liability exposures and commercial automobile coverage. You will need separate policies for these.



Home Based Business Insurance Needs

Keep up with your changing insurance needs

When deciding what type of policy to choose, consider the amount of financial risk you're willing to shoulder, as one major loss could mean the end of your business.

The Insurance Information Institute offers these tips for saving money on home-based business insurance:

Shop around.

Not all policies are created equal. Collect the names of companies and brokers who specialize in your type of business and compare prices.

Get a higher deductible.

It is often cheaper to purchase a policy such as BOP rather than separate policies.

Get acquainted with your agent or broker.

These are the people who give valuable advice when it comes to insurance, so use their knowledge to your advantage.

Ask about ways to prevent losses in order to lower your premium.

This could include recommendations such as workplace safety and liability prevention.

Regardless of the type of policy you settle on, your insurance needs will change as your business grows. That means you should periodically review your policy — at least once a year — to make sure you still have the appropriate coverages and limits. And don't forget to go over any exclusions with your agent.