Business Insurance Guidebook

cerf+
Craft Emergency Relief Fund

What if...

- A lightning strike or electrical fire burned your studio to the ground one night, or
- Heavy winds caused a tree to fall on your studio, destroying expensive tools and work in progress, or
- Your art show display collapsed, destroying the work in a neighboring booth or severely injuring a child?

Are you willing to gamble your assets, your financial future, and your ability to pursue a practice as an artist by betting that nothing like this will happen to you?

Business insurance is a tool you can use to transfer unacceptable risks to an insurance company.

Cover photo: Shaki Alliu, Craft Artist

Risk Management

Risk management is critical to running your business safely and responsibly. It involves lessening your exposure to risk by:

- Employing safety precautions particular to your business.
- Protecting against catastrophic and unanticipated losses through adequate insurance coverage

Managing risks means being proactive about the future of your practice by protecting not only your studio and materials, but also your ability to earn an income. A good risk management plan includes taking all reasonable steps to reduce the potential loss from these risks, whether at your studio, in transit, or on location:

- Bodily injury (yourself, employees, customers, and others)
- Property (structure, inventory, tools, supplies, records, etc.) loss from fire or natural disaster
- Theft
- Property of others in your care
- Pollution or other hazards that may be a consequence of materials or processes specific to your medium

Did You Know?

- Homeowners or renters' insurance usually excludes most business property and all liability related to business activities, unless you have specifically purchased a home business endorsement (rider).
- Homeowners' insurance excludes buildings on your property if they are used for business purposes.
- For insurance purposes, you are in business if you offer goods or services for sale.
- Homeowners', renters', AND business insurance policies exclude losses from floods and earthquakes.

Risk Management

TO DO:

Identify Risks

Make a list of risks from most serious to least, whether or not they are insurable. Try to make this list comprehensive and include things like data loss as well as natural disasters, fires from various causes, theft, fallen trees, etc. Add steps you can take, including insurance, to protect yourself from each risk.

Studio Inventory

A vital precautionary step to take for your risk management plan is to have an up-to-date inventory of your assets, and to have a copy stored in a safe offsite location, in your email, and/or in an internet "cloud" backup. Document your tools, equipment, finished works, and other assets with photos and store them with your inventory records. This inventory will help you determine how much property you have at risk that needs to be insured. If you do experience a property loss, these records will be essential to establishing values for an insurance claim or for disaster assistance.

TIP

The Studio Protector Online Guide: www.studioprotector.org has information to help you take steps to protect your "A's"—your art, your assets, and your archives, and to help you take effective steps to recover should an emergency happen.

Liability

Avoiding a High-Stakes Bet

Even if you are very careful, unforeseen things can happen that result in bodily injury or property damage to others. While the chances of such an occurrence may be relatively low, the consequences can be catastrophic to you, your family, and your practice.

Consider these scenarios:

- Someone slips and falls at your studio during a holiday studio tour, and their insurance company sues you to recover medical costs. Your homeowners' insurance company refuses the claim because the tour was a business-related activity.
- Your art show booth gets blown or knocked over, destroying $50,000 worth of blown glass in your neighbor's booth, or worse, injures a child. The injured party contends that you are at fault because your booth was not adequately secured.
- Someone is injured by your work and their health insurance company sues you to recover $150,000 in medical payments, the injured person sues for pain and suffering, or both.

Artists who would never consider driving a car without liability insurance too often operate their businesses without this vital coverage. Many artists mistakenly believe that their homeowners' insurance will cover them in some of these instances. Going without liability insurance for your business is truly a high-stakes gamble. Because risk exposure for liability is calculated by annual gross business receipts, most artists will find liability insurance to be surprisingly affordable.

Liability

Things Worth Considering:

- Homeowners' and renters' insurance generally exclude liability arising from business-related activities.
- Your landlord's insurance covers them, not you for liability and property loss.
- Even if you are found not at fault, a liability lawsuit could cost you thousands of dollars in legal fees to defend. Liability insurance generally covers legal costs to defend such suits.
- Liability judgments are not dismissed by bankruptcy and will follow you until settled.
- For product liability, the policy that is in force when a loss occurs pays the costs — so you need to maintain your liability insurance.
- Show promoters' insurance policies generally do not cover exhibitors, and many show contracts require you to assume liability for your own display and actions at a show.
- Increasingly, shows and public art commissions require proof of liability insurance in the range of $500,000 to $2 million. While that sounds like a wide range, there may be only a modest difference in premiums to purchase coverage with higher limits. Insurance companies routinely provide proof of insurance when it is required as a service to their clients.

Types of Business Insurance Coverage

Business Property

Property (Building) — Covers the physical structure of your studio. If your studio is in a building on the same property as your home, do not assume that your homeowners' insurance covers it!

Business Personal Property — Covers the contents of your studio such as tools, equipment, raw materials, work in progress, finished products, etc.

Inland Marine — Covers your work and other property in transit or away from the studio, such as when teaching, doing an installation, or at an arts festival.

Personal Property of Others — If you do repair or conservation work you need insurance for work in your care, however it does not cover damage you may cause in the course of working on the object.

Does not cover:

- **Flood Damage** — Damage from "rising water" requires special flood insurance to be covered.
- **Earthquake Damage** — Damage from earthquakes or other kinds of earth movement requires earthquake insurance to be covered.

TIP

- Property may be insured for either Replacement Cost or Actual Cash Value (replacement cost minus depreciation). Replacement Cost is usually the better choice, but costs more.
- If your studio is in the home and business volume small, you may be able to get a business property and liability endorsement added to your homeowners' insurance.

Types of Business Insurance Coverage

Liability

General Liability — Liability insurance protects you if someone is injured while on your property or if your property causes damage to others. Liability insurance stays with you when you are at a location other than your studio.

Product and Operations Liability — Covers you in the event someone is injured by a product or while you are performing your work somewhere.

Errors and Omissions — If you write or teach you may be interested in this coverage in case someone is injured from following your advice or because of an instruction you omitted.

Umbrella — Protects beyond liability coverage, kicks in when all other liability coverage is exhausted, usually in increments of $1 million.

Does not cover:

- Losses to your own property
- Losses to property of others in your care

TIP

- A general business liability insurance policy follows you where you go, so you are covered whether in the studio or at a show.
- Product liability: you are covered by the policy in force when a loss occurs not by the policy you had when an object was made.

Other Coverage

Keep in mind that basic business insurance policies cover risks to property like fire, lightning, explosion, windstorm or hail, smoke, riot, theft, water damage, vandalism, weight of snow, and so on. It may be called "all-risk" coverage but will most likely have exclusions. Flood and earthquake are generally not covered in a standard insurance package, so it is important to evaluate your risks for these. Understand what the exclusions in your policy are. Also know the amount or limit of coverage and make sure you get as much protection as you need.

Flood Insurance —Almost all business (and homeowners) insurance policies exclude damage from "rising water" or floods. Flood insurance policies are available through the National Flood Insurance Program, and your agent may be able to obtain a policy for you. You can evaluate your flood risk and get an estimate of the cost of flood insurance at www.floodsmart.gov. You do not have to be in a designated flood zone to flood or own your building to purchase flood insurance.

Earthquake Insurance — Most policies exclude damage from "earth movement" including earthquakes. Evaluate your risk and look into the costs of insuring this hazard. Remember that California is not the only state that is subject to damaging earthquakes.

Business Interruption — Covers the loss of business income incurred during the time your studio is closed due to a covered loss.

Luisa Roque, Jewelry Artist

Work by Yara Diaz, Jewelry Artist

Other Coverage

Extended Business Income — Extends payment for losses of business income beyond Business Interruption coverage time limits.

Extra Expense — Pays for re-location of your studio, if necessary, due to significant loss

Employee Dishonesty — Covers losses due to dishonest acts of employees.

Workers Compensation — Covers medical costs and lost wages for a worker that is injured on the job. Some states require all businesses with employees to have this coverage, and some allow exemptions for businesses with few employees. However, if you do not have coverage you are personally liable for these costs, which may be long term if a worker is disabled.

Commercial Auto Coverage — If you have vehicles that you use in your business, even if they are also your personal vehicles, they should be insured for business use. In most cases, personal auto insurance will not cover a loss when the vehicle was being used for business purposes. If you have employees and they use their own vehicles for tasks connected to your business, you also need coverage for "non-owned" vehicles. If they have an accident while doing work for you, their insurance may not pay and you could be held liable for damages.

What's a BOP? A BOP or Business Owners Policy is an insurance package for small businesses that combines the most common property insurance coverage and commercial general liability. This can be an economical way for a small business to insure, and for many artists the cost may be little more than the cost of a liability policy alone. Generally, the same exclusions for flood and earthquake apply.

Steps in Getting Coverage

Prepare a Business "Commentary"

To help your insurance agent understand your business, prepare a one- to two-page description of your background, experience, and size and scope of operations. Be honest and straightforward about your business. The agent will use this information to weed out underwriters who have little interest in your type of business.

Antonio Nieves, Wood Carver

Find an Insurance Representative

Shop around. Look for agencies that specialize in "commercial lines." Just because an agency sells auto or life insurance does not mean that they are experienced in business insurance or even sell it. Ask friends and/ or colleagues whom they use. Make sure to choose a representative you feel comfortable working with, someone who is communicative and responsive to your needs. You may decide to work with an agent who represents a specific company or companies, or go with a broker who independently and directly represents you to the marketplace. Brokers may offer a broader range of coverage options because they represent you and not the insurance company, but either choice is fine. Just be sure your representative understands

Work by Amber Mustafic, Fiber Artist

Steps in Getting Coverage

your insurance needs and helps you to design a package that provides the coverage appropriate to your situation. It's okay to be wary of insurance salespeople. A healthy dose of skepticism means you'll use good judgment when making your decision about who to work with and what coverage you're going to choose. A listing of business insurance plans designed for artists is available at www.studioprotector.org.

Get Several Quotes

Armed with relevant knowledge of your business from your Business Commentary and knowledge of the insurance industry, your agent will organize specifications for quotation and identify desired options. These specifications are transcribed into insurance policy applications. Many independent brokers will be able to offer quotes by competing insurance companies. In some cases a group plan offered by an organization to which you belong — or a policy designed specifically for artists — may offer a better price and set of options, but may not have the advantage of having a local agent.

Weigh the Merits of Quotes Gathered

Ideally, your agent will list each suggested coverage, including its cost, in order of the catastrophic potential that risk represents to the business. This way, you can make educated decisions about adding to or cutting back on coverage to achieve the best cost/ benefit balance. If you feel the quote is too high for your budget, ask what options you could change to reach a price you can live with.

Ask Questions

Ask about what is covered, and even more importantly, what is not covered. If you are not satisfied with the quality of the answers or do not feel the agent is being responsive, keep shopping and find a company you trust. When you get your policy, read it, and again, ask for clarification of anything you do not understand.

Things to Watch Out For:

Proper protection — Don't be uninsured. If you can't afford complete coverage, purchasing some insurance is better than having none. Avoid unnecessary coverage.

Gaps in coverage — Make sure you understand the scope of your coverage. If there are known gaps due to cost, understand what they are and make an alternate plan.

High deductibles/low deductibles — Insurance companies offer lower premiums for policies with higher deductibles (the amount you pay before insurance kicks in). They are understandably wary of customers who make many small claims. Weigh the value of lower premiums with your tolerance for a loss. Ask your agent for quotes with different deductible levels. A deductible of $500 – $2,500 is pretty standard, with deductibles at the higher end of the range as the amount of property coverage increases.

Work by Danny Cox, Instrument Maker

Exclusions —The policy giveth and the exclusions taketh away. Read the policy, know what the exclusions are, and don't be afraid to ask questions!

Stability of the insurance carrier — It's a good idea to check the financial stability of the insurance underwriter before signing up for the policy. A.M. Best provides free basic rating reports on insurance companies.

Claims — Ask your insurance representative if any claims have been made on the type of insurance they're offering and what turn-around time you would expect in the event of a claim. If no claims have been made or you feel service is unreasonable, choose a different company with which to work.

It is All Part of the Cost of Doing Business

Remind yourself that having good insurance coverage is one of the costs of doing business and part of your responsibility to yourself, your practice, and others who depend on you. The rates for coverage will vary depending on where you live, construction of your building (and whether you are insuring a building), coverage levels, and insurance company. Based on what we know about the size of artist-owned businesses, most artists should be able to purchase a basic business owners policy for around $500 if they do not have a building to insure. Of course, every business is unique and yours may require special coverage, which can raise the overall cost.

Carly Gibran-Hamid, Ceramic Artist

Resources

CERF+ maintains an up-to-date listing of insurance resources and a listing of policies designed for artists at www.studioprotector.org. There you will also find more information on insurance topics, emergency preparedness, and recovery. In addition to providing emergency resources to artists, CERF+ provides direct assistance to craft artists who have suffered practice-threatening emergencies.

For more information visit www.craftemergency.org.

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Craft Emergency Relief Fund

www.cerfplus.org

Order the Studio Safety Wall Poster (2' x 3') or download free at www.cerfplus.org

Order the Business Insurance Guide or download free at www.cerfplus.org

Visit the Studio Protector website: www.studioprotector.org for more information, details, and resources that are outlined in this guide.