

Small Business Insights

How to Avoid Insurance Gaps



Provided by: Fusco Orsini & Associates Insurance Services

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Small businesses in all industries face numerous risks that can lead to significant financial losses. To mitigate these exposures, businesses secure insurance. Many considerations go into building an insurance portfolio; business leaders must be mindful of policy specifics, such as limits and exclusions. Failure to adequately address a business's insurance needs can result in costly coverage "gaps," or situations where a business's insurance policies don't cover a specific loss, forcing the organization to pay out-of-pocket.

This article discusses common causes of insurance gaps, explores steps to identify and close those gaps, and notes which types of coverage are often overlooked. It also offers tips for ensuring adequate coverage is in place.

Common Causes of Insurance Gaps

Insurance gaps can be detrimental to a business and its stakeholders. They can cause financial damage when an organization must pay out-of-pocket expenses after its current policies fail to adequately cover a loss-causing event. In turn, this can also negatively impact a business's reputation, resulting in a decline of trust in its operations and difficulty in obtaining financing.

Small business owners can take several steps to avoid coverage gaps in their insurance policies.

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Coverage gaps commonly arise due to several reasons, including:

- **Misunderstanding policy exclusions**—Business owners may not understand how policy exclusions impact their insurance coverage. Exclusions eliminate coverage for certain risks, leaving the insured business vulnerable. If a policyholder is unaware of these exclusions or misunderstands how they apply, it can lead to significant coverage gaps.
- **Not reviewing and updating policies**—As businesses develop, their insurance needs evolve. Expansions, new services or increased inventory can outpace existing coverage and require additional insurance to meet the operations' new needs. Business owners must regularly review and update policies so that limits remain sufficient and coverage gaps don't form.
- **Relying on personal insurance for business activities**—Small business owners may incorrectly assume their personal insurance policies (e.g., homeowners insurance, auto insurance) cover their business activities. However, this is generally not the case; those policies typically exclude coverage for business activities. This is why it is essential to secure proper business insurance.

Steps to Identify and Close Insurance Gaps

Business owners and employers should take the following steps to discover and eliminate insurance coverage gaps that may exist in their policies:

- **Conduct a comprehensive risk assessment.** To understand their insurance needs, business owners must evaluate potential risks specific to their business and industry. This allows them to select the policies that best meet their needs.
- **Review and update insurance policies regularly.** Regular insurance reviews, especially after any changes in business size or scope, are a necessity. As organizations expand, so do their insurance needs. Therefore, a system should be in place to review coverage at least annually and after any major changes occur to the business.
- **Work with an experienced insurance agent or broker.** Insurance professionals can provide valuable advice on the coverage businesses need. Agents and brokers who understand the organization's industry can use their experience and knowledge to help select the right policies and provide assistance in navigating complex coverage terms and provisions.
- **Understand policy exclusions and endorsements.** Business owners should thoroughly read their insurance policies and understand what they exclude. For example, commercial property insurance typically does not include coverage for flood damage or losses caused by equipment breakdowns. However, separate policies and endorsements can be added or purchased to cover those events.



- **Ensure adequate limits and proper deductibles are in place.** If a significant loss exceeds a business's insurance policy limits, the business may have to cover the remaining costs out of pocket. Additionally, if deductibles are set too high, it may struggle to afford them. Setting limits and deductibles at appropriate levels is crucial to avoid underinsurance or facing large, unexpected expenses.

Types of Coverage Often Overlooked

Business owners should keep the following coverage in mind when building their portfolios, as they are often overlooked:

- **Business interruption insurance** provides financial assistance to help cover lost income and ongoing expenses if a business is forced to temporarily close due to a covered event.
- **Cyber liability insurance** may cover expenses such as notification and recovery costs after a data breach or cybersecurity incident (e.g., ransomware attack, denial-of-service attack or phishing attack).
- **Errors and omissions insurance** provides coverage for service-based businesses if a client claims the service was inadequate or negligent. It is also known as professional liability insurance.
- **Employment practices liability insurance** may offer financial protection for claims of wrongful actions (e.g. wrongful termination, discrimination, harassment) taken during the employment process.
- **Commercial umbrella insurance** provides an additional layer of coverage if a claim exceeds the liability limits of a business's other policies (e.g., general liability and auto liability insurance).

Ensuring Adequate Insurance

Business owners can take several actions to make certain they have adequate coverage. They can ask detailed questions and seek clarification from their insurers and brokers about what is covered under specific policies. Additionally, they can consider industry-specific insurance policies that address the unique risks of their business. They can even bundle policies to reduce costs and avoid gaps between separate policies.

Businesses should avoid insurance coverage gaps that can leave them vulnerable to financial and reputational damage. Understanding why coverage gaps form, knowing how to identify and close them, and being aware of the types of coverage that are often overlooked can help them achieve this goal. For more information, contact us today.

By reviewing their insurance requirements, becoming familiar with available policies and working with trusted insurance professionals, businesses can secure comprehensive insurance policies that cover their exposures and best suit their needs.

