

Personal Insurance Traps

September 2011

I find there's lots of confusion about the differences between personal and business risks and the insurance claims that can bite you.

- "I just sell and train for Amway – I don't take payments directly so I don't need extra coverage...."
- "My broker says my umbrella covers anything that could go wrong...."
- "I really don't have any business property or equipment in my home office – I use it for personal too...."

Confusion arises from the question "What's business?" and the different insurance company definitions and exclusions don't help.

Is owning several rental properties a "business?" What about "sales from home?" Different insurers define these in different ways. Some allow 2 to 3 residential rentals or minor "envelope-stuffing" type businesses to be included on the home insurance policy (with certain restrictions). Others do not.

Other business-personal gaps or overlaps can be just as tricky: inviting clients to your home for dinner; serving on a charity's board of directors; using your personal auto for a business errand, or worse, asking a neighbor to pick up some party supplies for a business-sponsored fund-raiser. Can you feel the quicksand?

Risk management starts with you being alert to the possible confusions and getting the proper advice.

- First, get a "real" insurance broker, put as many of your policies as possible with them, and insist on annual sit-down updates.
- Be transparent with your broker about all your personal and business activities. Ask questions and take notes to keep with your policies.
- Watch out for "creeping" exposures:
 - One more rental unit or increased revenue from your "small" home-based business or hobby could disqualify you from "personal" coverage;
 - Remodeling or new equipment that adds value to your home office probably needs a higher limit;
 - In-home assistance for an ailing parent or new child could require workers' compensation coverage.
- Make sure you have a broad home policy that covers personal-type exposures – like a dinner party for business clients. Understand the full ramifications of the "Business Exclusion."
- Get **specific** business coverage for most business exposures: property, liability and auto for starters.
- Make sure your charity Board has both Directors & Officers **and** Employment Practices Liability coverages. These are **not** covered by your Homeowners policy.

Questions or concerns? Please call for a more focused, no-obligation discussion.