

Typical Insurance Coverages for Small Design Firms

From professional services to autos to employees and so much more, exposure to risk comes with the territory of doing business. Do you realize if you are not incorporated, your personal assets are at risk, and you could lose everything in a lawsuit? Having appropriate insurance coverage will help protect your business and your personal assets in the event of a claim. Even if you are incorporated, you still need insurance. If you're not insured, most firms will not do business with you.

This article identifies and briefly explains the five coverages typically required in most design consultants' contracts for services: professional liability, commercial general liability, auto liability, workers compensation, and umbrella liability. Keep in mind that these are the "bare bones." There are many other lines of coverage—including a few we mention here—available to protect your business more completely.

Professional Liability Insurance

Professional liability insurance (PLI), also known as errors and omissions (E&O) insurance, is probably the most commonly required coverage for design firms. PLI provides coverage for third-party liability arising from negligent performance of covered professional services.

Generally the most expensive of all insurance policies for design firms, the premium for PLI is based on past revenue or, for startup companies, projected revenue. The typical minimum limit requested of small design firms is \$1 million each claim. ("Claim" includes both damages/indemnity and legal defense costs.)

PLI policies include two separate limits of liability:

- ▲ The "each claim" limit is the most the insurer will pay for any single claim.
- ▲ The "aggregate" limit is the most the insurer will pay for all claims in the policy period.

We recommend carrying an aggregate limit twice the each-claim limit so there is coverage left over in the event of a single claim that exhausts the each-claim limit.

Commercial General Liability

Commercial general liability (CGL) insurance provides coverage for third-party liability, including bodily injury and property damage, for losses arising from normal business operations. For example, a visitor could slip and fall at your office, or you could accidentally bump into and shatter a Ming vase at a client's office.

CGL presents less risk for most design firms than PLI. Consequently, it tends to be less expensive. CGL coverage typically has an occurrence limit and an aggregate limit. Common limits for smaller firms are \$1 million per occurrence and \$2 million general aggregate.

Auto Liability

Auto accidents are often the source of the biggest losses for many firms. Texting while driving has been the hot topic lately, but it's only one of many concerns. One serious at-fault accident while driving on business could put your whole firm in jeopardy.

Most small businesses do not have any vehicles owned or leased by the firm. However, most small-business owners and their employees do sometimes rent vehicles and, more often, use their own personal vehicles in the course of business. This creates liability for the company. The simple answer to mitigate this risk is to purchase hired and nonowned auto liability insurance to cover the firm's liability for rental cars and personal vehicles.

It's important to note that hired and nonowned auto liability does not cover first-party physical damage to an owner's or an employee's personal vehicle. That coverage still lies with the personal auto policy, along with primary liability coverage. Some insurers will offer physical damage coverage for hired autos; but given the onerous language contained in most rental agreements, major coverage gaps could still exist.¹

Workers Compensation

You may see this requirement on a contract with your client and think, “I am a sole practitioner, so this does not apply to me.” In Georgia, for example, firms with less than three employees are not required by law to purchase workers compensation. However, in most states, if you are not covered by your own workers compensation policy and are injured while working on a client’s project, you may be considered a “statutory employee” and may be able to file a claim under your client’s workers compensation policy. Your client would also be required by its insurer to pay premium on the fees paid to you if it does not have evidence (such as a certificate of insurance) that you carry your own workers compensation policy.

Workers compensation covers medical bills and pays nontaxable wage replacement for lost time due to work-related injuries. Think of it as inexpensive medical and disability income insurance for on-the-job injuries. If you are working from home at your drafting station and get up to walk to the kitchen, trip over your dog, and break your arm, chances are your insurer will understand that this is a work-related injury. And workers compensation has no co-pays or deductibles.

Umbrella Liability

An umbrella liability policy provides additional coverage over most liability policies (although not the PLI). Coverage is generally broader and less expensive than increasing the limits on each individual policy. Typical limits range from \$1 million to \$5 million for most small firms, but more coverage is available. Many of your clients may require that you carry this line of coverage.

Other Coverages

Most small-business owners have a certain amount of business property used to run the business, and many operate from a home office. However, the standard homeowners policy provides only \$2,500 for business

personal property on premises and \$500 away from the premises. Your insurer may agree to increase the limit under a business property endorsement to your policy. This extra coverage is typically inexpensive—generally less than \$100 per year—but may be limited. The better option is to buy a businessowners policy (BOP). A BOP bundles commercial general liability, hired and nonowned auto liability, and property into one policy. Significant savings are generated by packaging together these different lines of coverage. For example, premiums in Georgia start as low as \$500 per year.

Three emerging risks facing many companies today are media liability, network security, and privacy liability. Media liability deals with such risk exposures as social media sites like Facebook and LinkedIn. Network security and privacy liability include claims arising from the introduction of a virus onto a company database or the inadvertent release of confidential information, among other causes of loss. These risks are typically not covered by the standard policies we’ve discussed. Insurers are currently introducing policies specifically designed to address these issues. We recommend asking your agent or broker for more details.

Next Steps

You will first need to select an insurance agent or broker to place these lines of coverage. It is important to select a firm that specializes in your specific industry and understands the demands and risks associated with your line of work. Coverage for smaller firms can be obtained with minimal effort on your part—in less than a week in most cases.

We can provide you with a graphic representation of a typical insurance program for small design firms that may help you better understand how the pieces fit together. Please contact Jeff Connelly or send an e-mail to jeff.connelly@greyling.

1. Please see our article, “How to Avoid Buying Trouble When You Rent a Car.” To obtain a copy, please send an e-mail to info@greyling.com.