RISKY BUSINESS:
A Small Business Insurance Guide for Independent Stockbrokers and Insurance Agents
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INTRODUCTION

As a stockbroker or insurance agent, you’re no stranger to financial dangers. After all, you make your living by helping others protect their investments or make the most of their money.

But no matter what type of agent or broker you are, dealing with large sums of money exposes you to some of the same pitfalls you try to help your clients evade. And if you work as an independent contractor, you often can’t rely on insurance protection from the institutions you work with or represent.

If your business is going to grow, you need to take some precautions, such as protecting your investments with a business insurance plan. And unless you specialize in selling business insurance policies, there’s a good chance you’ll need a little help getting started.

We’re here to make it easy for you. This guide will help you identify your business’s risks and introduce you to techniques and policies you can use to protect your bottom line. We’ll explore…

• The purpose of small business insurance.
• Common risks of independent agents.
• The kind of business insurance policies you’ll want to have on hand when disasters strike.
• Ways to find insurance policies for your business.
• Risk management tips to keep your insurance rates low.

Ready to start designing your business protection plan? Keep reading!
CHAPTER 1:
HOW SMALL BUSINESS INSURANCE WORKS
HOW SMALL BUSINESS INSURANCE WORKS

What Is Small Business Insurance for Stockbrokers and Insurance Agents?

As you may already know, small business insurance protects your stock brokerage or insurance agency’s commercial assets from potential losses. Assets you can protect with insurance might include anything that helps your business grow and prosper, including…

- Commercial real estate.
- Business equipment (e.g., computers, printers, scanners, and fax machines).
- Business vehicles.
- Income.

If your business loses one of those assets, you’d have to absorb the cost of that loss – unless you have adequate business insurance. With the right policies in place, your insurance provider will bear the financial blow instead. Depending on the situation, that may entail…

- Paying your lawyers’ fees and settlements or judgments when your business is sued.
- Compensating you for the cost of replacing insured property.
- Compensating you for the cost of repairing insured property.

Small business insurance can protect your commercial real estate, business equipment, company vehicles, and revenue against loss, damage, or collection.
THE BUILDING BLOCKS OF A SMALL BUSINESS INSURANCE POLICY

Though we try our best to spare you all the insurance jargon, there are three basic tenets of a business insurance policy that you need to know:

• **Premiums.** Essentially, your insurance premium is the bill your provider charges you for its services. In order to receive your benefits, you must pay your premium on time. Usually your premium is due at monthly, biannual, or annual intervals, depending on the terms of your policy.

• **Deductibles.** Once you make a claim on your policy, you must pay a certain sum of money toward it before you can receive your insurance benefits. That sum of money is your deductible. Deductibles vary from policy to policy, and you may be able to cut your premium costs by taking on a higher deductible. However, you never want to choose a deductible you couldn’t comfortably spare if you ever need to make a claim. That would defeat the point of having insurance in the first place!

• **Policy limits.** This is the maximum amount of money your insurance provider can pay toward a claim. Your limits are stated in your policy’s terms. Sometimes laws and regulations require certain professionals to carry policies with specific policy limits.

At the end of the day, insurance is a way to mitigate your business’s risk. We’ll discuss the risks and liabilities agents and brokers face in the next section.
IDENTIFYING THE RISKS OF YOUR INDEPENDENT AGENCY OR BROKERAGE

Most agents and brokers already have experience recognizing risk. Stockbrokers decide whether or not to take financial risks every day. Insurance agents help their clients find products to mitigate their risks.

But in helping others mitigate their risks, you expose your business’s own vulnerabilities. You probably already take measures to reduce your liabilities and risk exposures, but the plain truth is: you can’t control everything. There’s always room for potential disasters and unexpected lawsuits.

That’s why it’s essential to develop a thorough risk management plan. These plans work by...

• Identifying and evaluating potential areas of threat.
• Determining which risks require action.
• Taking steps to reduce those risks and prevent loss.

The risks faced by stockbrokers and insurance agents vary, so you’ll need to evaluate your business on its own terms. To help you get started, here are a few broad categories that every agent should consider when assessing their exposures:

• **What do you own?** The more business property you own, the more you have to lose. Agents and brokers who own commercial buildings will have different risk considerations than those who rent or run a home-based office. You’ll also
want to consider protecting the business equipment you use every day. Your computer, phone, tablets, and other types of office equipment are vital to the day-to-day life of your business.

- **What do you do?** Your industry (financial or insurance) exposes you to different liabilities and holds you to different laws, regulations, and professional codes of ethics. Agents and brokers tend to be held to high professional standards, and if you fail to meet those standards, you could be sued for negligence.

- **Who do you work with?** Stockbrokers and insurance agents sometimes specialize in certain types of clients. Working with high-dollar clients raises the stakes for all parties involved. Your clients have more to lose if something goes wrong — and your business could be sued for those losses.

Some situations are outside of your control. You can’t force a client to not sue you. You can’t control the weather to spare your property from loss or damage. That’s why you need a safety net when things don’t go as planned. For many agents and brokers, that net takes the form of small business insurance.
CHAPTER 2:
HOW INSURANCE PROTECTS YOUR INDEPENDENT INSURANCE AGENCY OR STOCK BROKERAGE
HOW INSURANCE PROTECTS YOUR INDEPENDENT INSURANCE AGENCY OR STOCK BROKERAGE

Why Independent Contractors Need Small Business Insurance

While some stockbrokers and insurance agents may be full-blown employees of specific companies, many are considered 1099 independent contractors. And this is mostly a good thing – not being tied to any single company can help you better serve your clients. Even if you’re an insurance agent representing one large insurance company, you may still be the only one running the show in your office.

While this flexibility benefits you and your clients, it’s not without its drawbacks. Most independent contractors are generally excluded from the coverage of the business entities they work with or represent. That means you’ll need to have your own business insurance on hand in case you’re sued individually.

Even if you represent one particular company, you’ll need to carry your own insurance policies if you’re an independent contractor.

You may also be required by law to carry certain kinds, and amounts, of insurance coverage, depending on...

- The types of services you offer.
- Your total billings.
- Where you work.

As an independent contractor, you’ll first want to look into two basic protections that every business owner should carry: General Liability Insurance and Property Insurance. In the next sections, we’ll look at these two coverages in more detail.
GENERAL LIABILITY INSURANCE: BASIC LIABILITY PROTECTION FOR INDEPENDENT BROKERS

Because stockbrokers and insurance agents work with the public – usually in an office setting – General Liability Insurance (GL) is an especially important policy. For starters, it covers your legal costs when you are sued over a third party’s bodily injuries that happened on your property. (For reference, a “third party” is anyone who doesn’t work for your business.) If your office is open to the public, every person who walks through your door is a potential liability.

Other claims that fall under the realm of General Liability’s protection include…

• Bodily harm (e.g., a client trips and falls on your premises).
• Property damage (e.g., you accidentally drop and break a client’s tablet).
• Personal / advertising injuries (e.g., you inadvertently infringe on someone’s copyrights when you post their photo on your business’s Facebook page).

Because these claims are usually accident-related (i.e., either unpreventable or caused by an oversight), every small-business owner is wise to carry this policy, no matter their industry. Still, some business owners are more at risk for General Liability claims than others.
When Does General Liability Benefit Your Brokerage?

Here are a few factors that may increase your risk of a General Liability lawsuit:

Renting or Owning an Office

When your business operates out of a physical location, anyone could walk in and potentially hurt themselves—or claim that they did. General Liability Insurance is often called “slip-and-fall” coverage for this very reason.

For example, let’s say you’re an insurance agent who rents an office in a part of town that gets quite a bit of foot traffic. One day, a group of mischievous teenagers comes into your office. When they notice a short staircase leading from the entryway to your office, they decide to slide down the banister. Before you can ask them to leave, one falls off and breaks his arm. His mother ends up suing your business for the miscreant’s bodily injury, claiming her son slipped on an over-waxed step.

Working with Clients

General Liability claims typically revolve around damages you can see, such as physical injury and property loss. But business owners can be held liable for non-physical injuries, too. These are called “personal injuries” (aka advertising injuries) and include incidents such as…

- Libel.
- Slander.
- Copyright infringement.
- Privacy invasion.

For example, say you are an L&H insurance agent and you ask a recognizable local business owner to use her picture in a print advertising campaign. She agrees, but when the pamphlets are distributed, she claims that you did not get her explicit written permission to use her likeness for your business’s financial gain (which is a form of privacy invasion). She sues for damages.
Running a Home-Based Business

Some brokers prefer to work from home, which may make a GL policy seem like overkill. After all, you have a homeowner’s policy with liability coverage. But unfortunately, that may not be enough. Most homeowner’s policies – even those with liability protection – exclude coverage for business-related incidents. In other words, if you ever invite clients to your home office, you face the same exposures as any other business owner.

For example, let’s say you are a stockbroker who works out of a home office. One day, a client stops by to finish up some paperwork and insists on leaving her shoes at the door. Meanwhile, your new puppy finds the expensive designer shoes and decides to have a field day. When your client finds the mess, she says she wouldn’t have taken the shoes off if she’d known you had a puppy. She demands that your business reimburse her for the $1,300 pair of shoes.

As you can see, General Liability claims don’t have to be “legitimate” to end up costing your business money. After all, we live in the most litigious country in the world. According to Above the Law, Americans spend 2.2 percent of the country’s gross domestic product (GDP) on tort costs every year. That’s about $251 billion on lawsuits!

Luckily, General Liability Insurance ensures you don’t go broke trying to bail your business out of a frivolous (or even merited) lawsuit. For covered claims, your policy pays for…

• Your lawyers’ fees.
• Settlements.
• Judgments.
• Medical costs.
• Other court costs.

General Liability premiums vary and are based on the size of your physical office space, your industry, where you live, and your risk profile.
PROPERTY INSURANCE FOR AGENTS: SAFEGUARDING YOUR PHYSICAL ASSETS

Property Insurance covers the physical assets that help you run your business against loss or damage. Unless your business has deep pockets, it would probably be difficult to replace your business property if...

- Your computer, cell phone, printer, and scanner are stolen out of your office in the night.
- Your office is structurally damaged in a windstorm.
- Your office’s furnishings and fixtures are destroyed in a fire.

You’ll notice that each of these events is outside your realm of control. You can’t control human behavior or Mother Nature. But by carrying Property Insurance, you can at least reduce the amount of money you must pay out of pocket to restore your business property when these covered claims happen (fire, theft, and windstorms).

Property Insurance FAQs for Stockbrokers and Insurance Agents

You can customize your Property coverage based on your business’s exact needs and exposures. To help you decide which kind of policy is right for you, keep these questions in mind:

**How much coverage do you need?**

When it comes to purchasing Property Insurance, there are usually two types of plans to choose from: an Actual-Cash-Value policy or a Full-Replacement-Value policy. Actual-Cash-Value policies are, in general, easier on the wallet, but your insurance provider will only reimburse you for a percentage of your property’s value. This percentage accounts for your property’s depreciation. On the other hand, Full-Replacement-Value policies tend to be a bit more expensive, but they allow you to replace your damaged property...
with similar property at its current market price.

Do you own commercial real estate?

If you own commercial real estate, you’ll want to make sure your Property Insurance policy provides coverage for both the building itself and the contents of the building. The “contents” of your building include office equipment, furniture, fixtures, and anything else you keep in your office. It’s not uncommon for commercial real estate owners to think their policy insures their office’s contents only to realize after tragedy strikes that these items aren’t covered. Don’t let that happen to you!

Do you live in an area prone to natural disasters?

Most Property Insurance coverage protects you from specific dangers, which are known as “perils.” The most commonly included perils are fire, theft, and wind damage. This means that you are protected if one of these three disasters should strike, but not if your city finds itself underwater, as New York City did after Hurricane Sandy.

To find out whether your business is at risk for natural disasters, check out the Insurance Institute for Business & Home Safety’s Zip Code Risk Search. If you live in an area prone to flooding, hurricanes, or earthquakes, be sure to talk to your insurance agent about the endorsements you can add to your Property policy to account for these additional disasters.

Most Property Insurance policies don’t cover flood, hurricane, or earthquake damage, but you may be able to add on an endorsement to cover these events.

Do you rent property?

If you rent property or work in a brokerage house owned by someone else, Property Insurance may seem unnecessary. But if you own equipment housed in that rented space, you’ll likely need a basic Property Insurance policy to protect those items. While someone else may be carrying an insurance policy to protect the building, your business equipment is likely excluded from that coverage.
Do you own a home-based business?

If you work from a home office, you may believe that your office equipment is covered by your homeowner’s insurance. Unfortunately, typical homeowner’s policies exclude coverage for business-related items. This means that if your work computer is stolen from your home, it’s unlikely that your homeowner’s policy will reimburse you for it. (To learn more about the limitations of your homeowner’s policy, check out the infographic “Is Your Home-Based Business Covered?”) Luckily, a basic Property Insurance policy can adequately protect your business assets.

Most homeowner’s insurance policies exclude coverage for business assets.

How to Save Money on Your Agency’s Property Insurance Policy

By this point, you may be concerned that Property Insurance sounds expensive. But independent contractors can often get a competitive rate on their insurance policies. Some stockbrokers and insurance agents may even qualify for a discounted insurance package called a Business Owner’s Policy (BOP).

In order to qualify for a BOP, your business must be considered “low-risk” for General Liability and Property Insurance claims. If your business is classified as low-risk, then your insurance provider can bundle these two coverages together for a reduced premium. A BOP is a great way for independent contractors to save money and still have the coverage they need.
KEY INSURANCE POLICIES FOR STOCKBROKERS AND INSURANCE AGENTS

General Liability and Property Insurance may cover your basic risk exposures, but given your specialized services, you’ll require additional coverage to adequately protect your business from other liabilities. Namely, providing services and offering advice to clients opens you up to professional negligence claims. And considering you often advise clients on how to invest their money or protect their assets, emotions can run high. In fact, your clients may be wary of the quality of your services from the start.

This wariness may encourage clients to sue your business when something doesn’t go as they hope. And when that happens, you’ll need special coverage to help absorb the high cost of their claims.
WHY BROKERS & AGENTS NEED PROFESSIONAL LIABILITY INSURANCE

Professional Liability Insurance (sometimes called Errors & Omissions Insurance or E&O) is an extremely important coverage for brokers and agents. This policy protects your business assets when your clients claim your professional services aren’t up to snuff.

This is how a professional liability claim usually unfolds:

• Your client believes you’ve made a professional error or oversight or that you’ve breached the terms of your contract.
• That error – whether real or perceived – costs your client money.
• Your client sues your business for damages.

Even if you represent a larger company, you could be individually named in a lawsuit for the advice you gave a client.

Sure, people aren’t perfect. It’s possible that you could make a professional mistake or miscommunicate with a client. But in your business, these errors can have devastating financial consequences. Even when you do everything right, your client could still lose a lot of money from, say, a poor-performing investment.

Whenever a client’s expectations aren’t met, you are at risk for a professional liability lawsuit. And here’s something worth noting: stockbrokers and insurance agents can be held independently liable for professional liability claims, even if they represent a larger company.

You can learn more about your professional liabilities by reading the section, “Understanding Common Professional Liability Claims.”

If your business should ever face a professional liability claim, your insurance protection can help you pay for expenses such as...

• Legal defense fees.
• Settlements.
• Judgments.
• Other court fees.

Your Professional Liability policy can pay for these expenses, up to your stated limits, even if the claim is fraudulent or thrown out in court. And that’s a good thing: according to a U.S. Chamber Institute for Legal Reform study, frivolous claims can cost small-business owners between $2,000 and $5,000 in lawyers’ fees alone.

Meritless lawsuits can range between $2,000 to $5,000 in legal defense costs.
SURETY BONDS FOR STOCKBROKERS AND INSURANCE AGENTS

Government regulations or companies and clients that you contract with may require you to carry a Surety Bond for extra security. For example, many brokers are required by their state government to carry bonds.

What is a Surety Bond? In the most general terms, a Surety Bond is a written agreement that involves three parties:

- **An obligee.** Someone you are contractually providing services for.
- **The principal.** The person who is providing the contracted services (you).
- **The surety.** The entity that has your back financially. Usually, the surety is an insurance provider.

Essentially, a Surety Bond promises that if you do not fulfill your contractual obligations to the obligee, then the surety will compensate that party. However, unlike an insurance policy, you must pay the surety back any amount they pay on your behalf.

As the bond holder, you must pay back any amount a surety pays a third party on your behalf.

You most often hear about Surety Bonds in the construction industry. But they are also common in the world of brokers, where professionals must uphold fiduciary responsibilities. Think of it as an extra layer of security when a lot is at stake.
INDEPENDENT AGENTS: KNOW WHAT BUSINESS INSURANCE CAN’T COVER

No single insurance policy will cover every exposure your brokerage business or agency faces. So to fill the potential gaps, insurance providers offer “mini” coverages that you can add on to existing policies. In the insurance industry, these additional protections are called “riders” or “endorsements.”

Riders allow you to easily and affordably customize your business insurance policies so you can add more coverage only where you need it. Let’s take a look at a couple riders that may benefit stockbrokers and insurance agents.

You can customize your insurance policies by adding riders.

Tail and Prior Acts Coverage

Tail and Prior Acts coverage can help you close gaps in your Professional Liability Insurance. But to understand those gaps, first we need to talk about how Professional Liability Insurance operates on a “claims-made” basis. This means two things. In order to receive your benefits, your policy must...

- Be active when the incident occurs.
- Be active when the claim is filed.

Sounds easy enough – as long as you never let your Professional Liability policy lapse or switch policies. But if you do switch policies or let your policy lapse, your business can’t count on its insurance benefits. And because your new policy will likely be a “claims-made” policy, it may not cover incidents that occurred while you were covered under your old policy.

This is where a prior acts rider comes in. You can add this coverage to a new Professional Liability policy to cover incidents that may have occurred – but were unknown to you – before your new policy kicked in.

Tail riders operate under a similar concept, but are usually purchased by people who are retiring or closing up shop. Brokers would purchase tail coverage when they need protection for activities completed while they were still in business, but not the protection of a full-blown Professional Liability policy.
The Problem with Stopping and Starting Insurance Coverage

When you are an independent contractor, it can be tempting at times to drop coverage. Maybe it’s starting to seem unnecessary or maybe you feel it’s getting too expensive. No matter what your reasoning is, dropping coverage is never a good plan.

Let’s take a look at the first point: necessity. It’s just you running the show, and maybe you feel as though you’re careful enough to fly free without a safety net. You’ve had a General Liability policy for five years now, and never once has a person hinted at filing a claim.

So you drop your coverage. But in a week, a month, or a year, maybe someone comes into your office, falls on a wet floor, and breaks an arm. Because the accident is technically your fault, the injured party wants you to pay for her medical expenses. Now you’re out several thousand dollars.

The point is you never know when you’re going to need your coverage. And most brokers can be held liable for the “lifespan” of the product or service they deal in. As for the financial aspect, consider this: if you can’t afford your premium, how will you ever survive a catastrophic property loss or a costly lawsuit?

Unfortunately, you don’t have a crystal ball and can’t predict if, or when, tragedy will strike. And even if you did know, you’d still have to contend with these two facts:

• Once you drop coverage, you are not protected against claims, even if you had coverage at the time of the incident.
• For some liabilities, the statutes of limitations allow people to file claims for years after the initial incident.

This mean the best way to stay protected is to avoid lapses and gaps in your coverage. And when you’re dealing with other people’s money, you just can’t afford the risk of doing business without a financial safeguard.

Professional Liability Insurance is claims made coverage, which means you can only receive your benefits if both the alleged incident occurred and the lawsuit is filed while your same policy is active.
CHAPTER 3: SPECIAL CONCERNS FOR INDEPENDENT STOCKBROKERS AND INSURANCE AGENTS

Understanding Common Professional Liability Claims
Professional liability is probably one of the biggest risks you face as a stockbroker, actuary, or claims adjuster. That’s why it’s important to understand the most common claims you may face so you can take the steps necessary to avoid them.

**Professional Liability Triggers for Stockbrokers**

According to an article by the Securities Fraud & Investor Protection Resource Center, the following situations can land a stockbroker in deep legal trouble:

- **Unauthorized trading.** A client could claim that you made a trade that was not permitted. This is called “unauthorized trading,” which is illegal. If the court buys their argument, you may be ordered to compensate the client for their economic losses. That’s why you must always get your clients’ permission before making a trade – even if the window of opportunity is small. Let’s say you want to make a trade but can’t contact your client. If you make the trade and inform the client about it later, the act is still considered unauthorized trading and could come back to haunt you in the form of a lawsuit.

- **“Sure bets.”** While you may know that there are no guarantees when it comes to the stock market, at the end of the day, you’re a salesperson. So you might inadvertently use some puffery and enthusiasm in your pitch. Experienced investors usually understand this, but some investors – particularly the inexperienced – may cry foul. Of course, there is a lot of gray area here. But your enthusiasm could be considered “aggressive sales tactics.” If your advice sways the client to make the investment and they lose money, you may be found liable for “unlawful misrepresentations.” The same holds true in a situation where an investor feels that you’ve downplayed the risk factor of a particular option.
• **Churning.** Churning is a form of securities fraud where a broker repeatedly buys and sells stock in an account in order to generate commissions. You could be found liable for churning even if you call your client and get permission before each trade.

• **“Hot tips.”** It’s important for brokers to realize that the line between acceptable tips based off research analysis and prohibited insider information is not always clear.

• **Failure to maintain credentials.** As a broker, you are held to the standards of the securities industry. You are a licensed professional who has passed several examinations that qualify you for the position. But if you, at any point in your career, fail to maintain your professional education, you could be found liable for negligence or broker malpractice. A poor-performing portfolio does not merit legal action on its own. But a series of professional mistakes and misjudgments on the part of the broker may raise a flag.
PROFESSIONAL LIABILITY TRIGGERS FOR INSURANCE AGENTS

Independent insurance brokers have other claims to worry about. According to a chart by the Independent Insurance Agents and Brokers of America (IIABA), the most common professional liability claims made against insurance agents stem from failing to...

- **Procure coverage.** According to the chart, these are the claims made most against insurance agents. These suits usually happen when a client incurs a loss while you are trying to procure coverage. You can read about one such case in *Boiardi v. Freestate*, in which a client, after experiencing a devastating fire in her home, sued her agent for not procuring a homeowner’s policy.

- **Adequately explain** policy provisions. When a client feels that you did not explain the details of their policy well enough, you may see a professional liability claim in your future.

- **Adequately identify exposures.** After a natural disaster hits, a client may look to recoup their losses by suing your small agency. Say a client’s house floods, and they find out that their regular Property Insurance policy does not cover flood damage. The client may claim that you “should have known” that flooding was a risk exposure and advised them accordingly.

- **Recommend coverage types.** This one goes hand in hand with the previous example. These suits usually surface after a client files a claim and realizes they don’t have enough insurance to cover the damage. Because you are the insurance expert, clients can claim that you should have advised them to purchase a certain type of coverage.

- **Provide timely notice of claim to provider.** If a provider denies your client’s claim because you failed to notify them in time, it’s likely that you’ll be facing a professional liability claim. And if your client misses the deadline, they could claim that you did not properly inform them of the policy’s requirements.

As you can see – across all categories – many of these potential claims can be avoided by clear and frequent communication. And to avoid “he said, she said” scenarios, be sure to keep careful records of communication. If you can get it in writing, do.

The best ways to avoid a professional liability claim? Communicate clearly with your clients and keep thorough documentation of all your dealings.
Health Insurance for Independent Stockbrokers and Insurance Agents

Independent contractors generally don’t receive employer-based healthcare coverage. If this is true for you, you’re responsible for purchasing your own health insurance (unless you’re already covered through a spouse’s plan).

Since the Affordable Care Act took effect in 2014, most Americans have been required to carry healthcare coverage. Uninsured independent contractors and other small-business owners can purchase health insurance on the government’s Individuals and Families Health Insurance Marketplace during open enrollment. (To learn more about your health insurance options, read, “What If I’m Self-Employed?” on the government’s healthcare website.)

How the Affordable Care Act Affects Independent Brokers & Agents

Depending on your professional and personal situation, you may or may not need to purchase health insurance coverage in order to comply with ACA regulations. Here are things to keep in mind:

• **Part-timers.** If you run your brokerage on the side and work as an employee elsewhere, your employer-based health benefits should fulfill your coverage obligations. Still, you might want to check out the Marketplace anyway. Perhaps you’ll find comparable coverage at a lower price. To learn more about your options, read Healthcare.gov’s article, “What If I Have Job-Based Insurance?”

• **Spouses.** If you already receive benefits through your spouse’s health insurance plan, there’s no need to purchase your own policy.

• **Individual policy owners.** If you already carry an individual health insurance policy, you can simply keep your existing plan.

• **Those without health insurance.** According to the “individual mandate” portion of the Affordable Care Act, most Americans must carry health coverage or pay a fine. To learn more about the individual mandate, check out Blue Cross Blue Shield of Rhode Island’s Individual Mandate Fact Sheet.

If you are required to carry health insurance coverage and choose not to, you will be...

• **Fined.** The fine is based on your household income and increases in severity each year.

• **Responsible for healthcare costs.** If you are uninsured and need medical care, you will not be eligible for financial assistance.

To learn more about noncompliance penalties, check out the article, “What If Someone Doesn’t Have Health Coverage?”

Uninsured independent contractors must purchase their own healthcare coverage.
The Cost of Health Coverage

The price of your health insurance policy depends on several factors, including your...

- Annual income.
- Family size.
- State of residence.
- Smoking status.

Failure to carry health insurance could result in a fine – one that increases each year you go uninsured.

Independent contractors may be surprised to learn that they might qualify for government subsidies, which make your premium more affordable. If your annual income falls between 100 percent and 400 percent of the poverty line, you will qualify for a subsidy. That means individuals who make up to $46,000 a year will get assistance. A family of four can make up to $94,000 a year and still qualify for lower premiums.

To estimate your subsidy, use the Kaiser Family Foundation’s subsidy calculator.
CHAPTER 4:
INSURING YOUR INDEPENDENT BROKERAGE
INSURING YOUR INDEPENDENT BROKERAGE

Independent Stockbrokers and Insurance Agents: How to Find Small Business Insurance

Now that you know which business insurance policies can insulate you from staggering financial losses, it’s time to seek out coverage. Unless you sell small business insurance for a living, you may not know where to begin. And considering that not all insurance companies offer policies for one-person operations, you may end up spinning your wheels.

But once you know where to look, you’ll be able to find the right business protection plan. You can start your search by…

• Finding insurance by yourself.
• Finding insurance with an agency.

Learn more about each option so you can decide which route is best for you.

Finding Small Business Insurance on Your Own

If you have the time and the right contacts – as an insurance agent might – finding small business coverage on your own might be a piece of cake. For everyone else, expect to do a bit more legwork.

Unfortunately, you may not be able to purchase business insurance from the same company that provides your personal policies. So your first step is to make a list of business insurance carriers that…

• Are familiar with insuring independent contractors and/or small-business owners.
• Have experience insuring professionals in your field.
• Are financially solvent.
• Have excellent customer-service reputations.
When compiling a list of potential insurance providers, be sure to vet companies based on their solvency, accreditation, and history of complaints.

You may want to first ask colleagues if they have recommendations – but don’t take their word alone. You need to take the time to…

- **Do your own research.** Would you trust just any old company with your business investments? Of course not – that’s why this step is so important. Take recommendations from your colleagues, and then put those insurance providers through the paces. There are online tools available to help you research insurance companies, verify their accreditation, and view their history of customer complaints. Use [A.M. Best’s Provider Search Tool](#) to get started.

- **Call and compare.** Once you have a list of several reputable insurance providers, give each a call and ask about the types of policies they offer. It’s important to remember that insurance providers are not interchangeable. Their coverages, prices, and options will differ. And there’s no guarantee that any one provider will carry all the policies your business needs. Don’t forget to ask questions about their experience insuring independent contractors in your field. If the agent doesn’t seem familiar with your profession, you’ll know to cross that company off your list.

- **Collect quotes.** After you’ve narrowed down your list, it’s time to ask for quotes. Don’t be surprised if your quotes vary from provider to provider. That’s why this step is so important – you don’t want to end up paying more for coverage than you have to. By the same token, you also don’t want to end up with more or less coverage than your business requires.

- **Be suspicious of rock-bottom rates.** Yes, insurance quotes do tend to vary, but you should still be skeptical of the cheapest policies. There’s probably a reason for those low rates – for example, they may exclude some of the coverages you need.
If all this sounds like it might be difficult to fit into your busy schedule, you’re not alone. For most small-business owners, simply wading through all the legalese and insurance jargon would take hours. So if saving time (and possibly money) sounds more like your wheelhouse, consider teaming up with a licensed small-business insurance agent to find your insurance policies.

**Finding Small Business Insurance with a Licensed Agent**

As a broker or agent, you know firsthand how beneficial it can be to have an expert on your side when navigating unfamiliar waters. Just as you help match clients to personal insurance or investors to investments, a licensed independent insurance agent – such as those at insureon – can help connect you with adequate small business insurance coverage.

When looking for an insurance agent, be sure to seek out one who...

- Specializes in insuring small businesses, including those run by independent contractors.
- Specializes in insuring niche-industry professionals, like stockbrokers and insurance agents.
- Works with A-rated insurance providers.
- If you are an independent insurance agent, you already know the benefits of working with someone like you who has the savvy and experience to find quality products. But everyone else may want to know that working with an agent can...
- **Save you money.** There are two types of insurance agents: captive and independent. When you find insurance on your own, chances are you’ll work with a captive agent. They represent one insurance
provider and can only sell that provider’s policies. On the other hand, independent agents work for themselves and can sell the policies of many different insurance providers. This gives them an edge. With all those insurance providers and policies at their fingertips, they can easily find you the most competitive rates available.

• **Save you time.** Think about how long it would take your average client to make their own trades. If it were possible, they might never be able to “pull the trigger” because they wouldn’t be able to tell if they were making the right decision. While finding business insurance might be a tad less complex than navigating the stock market, it’s still no walk in the park. But an insureon agent can find the appropriate policies for you in one afternoon. Plus, insureon gives you the option of filling out an online application so you can review the quotes at your convenience when they arrive in your inbox.

• **Give you more options.** At insureon, our agents are trained by industry. That means your agent will already understand your risks and insurance needs. Additionally, they have relationships with A-rated insurance carriers who offer products specifically designed for your profession. All these factors mean you can rest assured that you’re receiving the tailored coverage you truly need – no bells and whistles, no extra fees.

• **Offer you more accessibility.** Insureon agents provide clients with a real, human connection. When you work with insureon, you can call us up and speak to a live agent any time during regular business hours – no robots, phone trees, or automated systems. If you have questions about your coverage, an insureon agent will be there to talk you through it.

Regardless of which route you take, be sure you assess your business’s most pressing risks before searching for coverage. You’ll also want to gather your business information, such as your revenue, the square footage of your commercial office space, client contracts, etc. Most insurance applications require this information so your quotes are as accurate as possible.
KEEPING INSURANCE RATES LOW: RISK MANAGEMENT TIPS FOR AGENTS

Nailing down an insurance plan is only part of an effective risk management strategy. After all, insurance can’t prevent accidents from happening – it can only lessen the financial blow when they do.

Therefore, the most effective risk management strategies are those that try to ward off accidents before they happen (in addition to having adequate insurance protection as a safety net). This approach reduces your risks and ensures your insurance premiums stay as low as possible. Remember, your premium may be affected any time you make a claim on your policy.

Here are a few ways you can keep your insurance claims to a minimum and guard your brokerage against unexpected expenses.

Ask Your Insurance Agent about Cost-Saving Measures

Generally, the extra measures you take to prevent losses could translate to lower premiums. Of course, you’ll want to speak to an insurance agent before you invest too much time or money in these risk-reduction strategies. Some insurance providers won’t lower premiums unless you follow their specific risk management guidelines. But to give you some ideas, here are a few cost-saving suggestions that your agent might recommend:

• Protect your office from potential damage. Simple, inexpensive “home improvements” are a great way to limit property damage (e.g., keeping a fire extinguisher on the premises or installing smoke detectors and sprinkler systems). Even if these precautions don’t directly translate into lower premiums, they can save you a lot of heartache. Be sure to ask your insurance agent about ways to “disaster-proof” your office. For example, you may be able to update your electrical or plumbing system to see savings. In some areas, it may be beneficial to add storm shutters to your building.

• Improve your security. Installing a security system may save you money on your Property Insurance premiums and help deter crime. Consider installing dead-bolt locks and a burglar alarm, too.
Your brokerage may be able to save money on its Property and General Liability Insurance premiums by purchasing a Business Owner’s Policy (BOP).

- **Opt for bundled insurance packages when possible.** If you purchase your policies from the same provider, there are more opportunities to bundle policies and save money, as with Business Owner’s Policies. A Business Owner’s Policy combines your General Liability and Property Insurance together at a reduced annual rate.

- **Choose a higher deductible.** A deductible is the amount of money you must pay toward a claim before your insurance benefits kick in. Generally, higher deductibles are paired with lower premiums, and depending on your needs, this option may save you money in the long run. That being said, it’s never wise to take on a deductible so high that you couldn’t afford to pay it if you file a claim.

Again, if your goal is to reduce your premiums, always check with an agent before you make an expensive upgrade or change to your business.

Installing a security system may reduce your Property Insurance premiums, depending on your insurance provider.
Save Money on Your Quarterly Tax Returns

As you know, independent contractors are responsible for keeping tabs on their taxes throughout the year. Regular employees don’t need to worry about this because their employers withhold their taxes. By contrast, as a self-employed broker, you must pay your own estimated taxes each quarter.

If you’d like to learn more about quarterly taxes, read [IRS.gov’s Estimated Taxes page](#). In the meantime, we’ll give you the skinny:

- The IRS prefers that you file four equal returns each year.
- Unless you report at least 90 percent of your total income by the end of the year, you will incur a penalty.

Keep in mind that independent contractors are taxed at a higher rate than regular employees in the same tax bracket. Why? Independent contractors are required to pay a self-employment tax that covers…

- Social Security taxes.
- Medicare taxes.

If you were an employee, your employer would pay half of your Social Security and Medicare taxes. But because you are technically your own boss, you are required to pay the full amount yourself. To learn more about this topic, read the [Self-Employment Tax page](#) on the IRS website.

Being an independent contractor has its perks, despite having more tax obligations to juggle. For starters, you have more opportunities to take business deductions, which reduce your taxable income. Your tax advisor can help ensure you’re taking all the deductions you’re due. Before you pay your tax pro a visit, here are a few things you can do to make the most of your meeting:

- Keep detailed, organized records. Every time you make a business transaction, keep your receipt and scan it once you get back to the office. Business expenses can include anything you buy that helps you run your business. This may include new equipment or a lunch meeting with a client. You can also deduct your business-related mileage (even a trip from your office to the bank counts!). Simply track your route on a site like
Google Maps and record your mileage. Your tax advisor can translate your miles into a deduction amount.

- **Keep your receipts.** Just because you have all your receipts recorded on your computer doesn’t mean you can throw out the original copies. If you are audited, you’ll need to have those original receipts on hand. The IRS recommends that different records be saved for different lengths of time – anywhere from three to seven years. To learn more, check out the IRS’s article, “How Long Should I Keep Records?”

- **Don’t overlook deductions.** There may come a time when you’re not sure whether an expense counts as a business deduction. If you find yourself in this situation, don’t throw the receipt away. Keep a separate record of “iffy” transactions, and bring them with you when you meet with your tax professional. They will be able to tell you if the expense is deductible.

- **Save for retirement.** Self-employed professionals can often receive a Savers Credit when they contribute to an eligible retirement fund. However, not all retirement funds qualify. Read the IRS’s Get Credit for Your Retirement Savings Contributions page to learn more.

- And if you have more questions about taxes for independent contractors, visit the IRS’s Self-Employed Individuals Tax Center.
When Should Stockbrokers and Insurance Agents Update Their Business Insurance Policies?

When small-business owners purchase their business insurance plans, they breathe a sigh of relief. Now that you're protected, you only have to think about your coverage when your premium is due. Out of sight, out of mind – right?

Not exactly. You’ll need to revisit your policies any time your business experiences a significant change. After all, when your business evolves, your business protection plan should, too.

Most insurance policies include provisions that allow small-business owners to make changes to their policies in order to address significant events, even if they happen in the middle of the year.

It’s extremely important that you notify your insurance agent when the following significant events occur:

- **Your business relocates.** Any type of move can affect your insurance coverage – whether you move from your home to rented space or from rented space to owned commercial real estate. If you relocate, be sure to call your insurance agent to make sure your Property Insurance and General Liability policies cover your new location.

- **You start offering new services.** When you offer new services, your Professional Liability Insurance needs will change. Be sure to notify your agent so your old policy doesn’t leave you exposed.

- **You purchase a business vehicle.** If you purchase a vehicle for your business, you’ll need a **Commercial Auto policy.** Keep in mind that the year, make, and model of your business vehicle can greatly impact your premium.

- **You hire employees.** You’re an independent contractor now, but if you ever hire employees in the future, your state laws will likely require you to carry **Workers’ Compensation Insurance.** This policy protects your employees when they suffer occupational injuries. To learn more about your coverage obligations, check out our guide, “**Workers’ Compensation Insurance Laws by State.**”

In conclusion, if you are ever in doubt about whether or not a change to your business will affect your insurance coverage, call an **insureon agent.** We’re available during regular business hours to answer any questions you have about your small business insurance needs.
QUICK RESOURCES

Above the Law’s “We the Plaintiffs” Infographic
A.M. Best’s Provider Search Tool
Blue Cross Blue Shield of Rhode Island’s Individual Mandate Fact Sheet [PDF]
Federal Government Healthcare Website
  • Individuals and Families Health Insurance Marketplace
  • “What If I’m Self-Employed?”
  • “What If I Have Job-Based Insurance?”
  • “What If Someone Doesn’t Have Health Coverage?”
Financial Industry Regulatory Authority (FINRA) Website
  FIRNA’s Compliance page for stock brokers
IIABA’s Claims Frequency Data page
Claims Frequency Data page
Independent Insurance Agents and Brokers of America (IIABA) E&O Claims Chart
Insurance Institute for Business & Home Safety’s Zip Code Risk Search
insureon Workers’ Compensation Insurance Laws by State page
Internal Revenue Service Website
  • Estimated Taxes page
  • Get Credit for Your Retirement Savings Contributions page
  • “How Long Should I Keep Records?”
  • Self-Employed Individuals Tax Center
  • Self-Employment Tax page
Kaiser Family Foundation’s Subsidy Calculator
NAMB’s Best Lending Practices page [PDF]
NAMB’s Code of Ethics page [PDF]
NAPIA’s Education page