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Chapter 9: Commercial and business insurance plans: Customizing risk management for SMEs and corporations

9.1. Introduction to Commercial Insurance

Commercial insurance is a contract between a business and an insurance company. The insurance company provides financial protection against certain losses in exchange for a premium. We will focus on coverages that protect businesses from bodily injury, property, business interruption, and marketing liability. Commercial business insurance is generally regulated by a state's insurance department. These government bodies make sure that insurance companies collect enough premiums and meet their obligations in terms of claims payments.

We have become a totally litigious society. To avoid being sued, every business should carry commercial liability insurance. Generally, businesses with premises (such as a store) will be required to carry insurance by their landlord. Many other businesses, such as vending companies or painting contractors, may not be required to purchase insurance. But any business can become embroiled in a suit that could claim their total assets. If a jury finds that they caused injury to someone, there would be a hefty price to pay. Business owners and officers can also be held personally liable for a corporation's actions. So, total liability could claim not only the business's assets, but also the owners' personal assets. If you want true peace of mind, incorporate your business and cover yourself with liability insurance. Protect your assets from accidents outside of your premises (Freeman et al., 2023; Nguyen et al., 2023; Jackson et al., 2024).

In the case of a property damage claim, a business's financial condition will certainly be adversely affected while the property is being repaired. This could be a major financial burden. Some businesses do not have the extra cash to pay the expenses until their property is restored. Business interruption insurance can help. This coverage pays a business's necessary expenses until it is back up and running, even if there are no profits being generated. If a business has to close due to a claim against it, that will risk the loss of its customer base and goodwill. The business may also need help from an insurance carrier to recover from that crisis (Patel et al., 2024; Silva et al., 2025).

9.1.1. Overview of Commercial Insurance Concepts

Business insurance is a form of insurance coverage that is specifically designed for businesses, corporations, and other more established organizations.

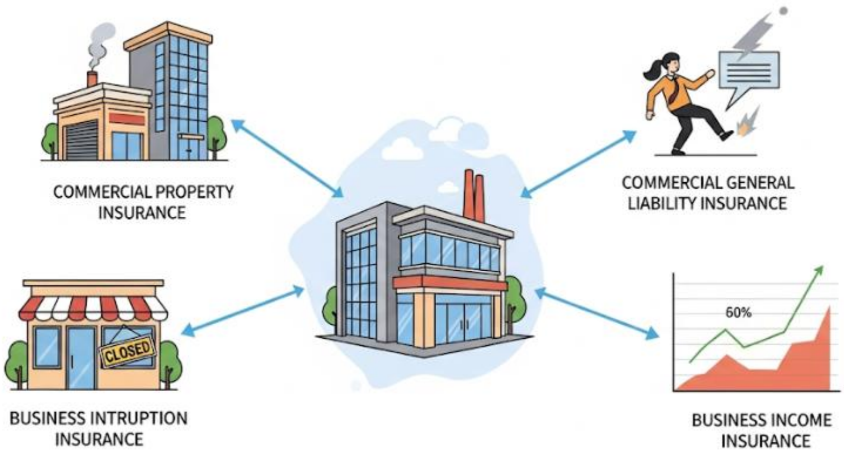

Fig 9 . 1 : Understanding Commercial Insurance

The planning and execution of commercial insurance is one of the cornerstones of ensuring business continuity; as if something happens and the viability of the company is challenged, the consequences can be damaging – not only for business investors and employees but also for the wider economic ecosystem that relies on contributions and stability of larger or more visible companies. Business insurance can cover everything from property and general liability to errors and omissions, worker injuries, flexible benefits, or commercial life insurance. Commercial Property – protection against loss or destruction of buildings and contents kept in a building and money as well due to covered perils or events including partial loss such as loss of rent during the reconstruction process. Commercial General Liability – protection against loss incurred due to bodily injury or property damage caused by the business or its representatives while they're performing work on behalf of the insured. Business Interruption Insurance Coverage – protection against loss of profit for a business due to the inability to conduct normal business activities – for example, while the building is being reconstructed due to fire damage, as a result of physical loss or damage to insured property. Business Income – the product of gross profit and the amount of time it should reasonably take to repair, rebuild or replace the damaged property.

9.2. Understanding Business Insurance

Commercial and business insurance plans are risk management products designed to provide coverage for small and medium enterprises and corporations, which are at greater risk for natural disasters, liability, loss of customers, and general business loss. When formulating insurance programs, agents develop an understanding of the company's particular risk exposure and need for protection before creating a package of different types of insurance. Major areas of coverage typically included in business and commercial insurance are property and casualty, liability, life, commercial, and health insurance.

Business and commercial insurance are products that have been specially developed to protect the business against various potential risks. One common type of protection is a Property and Property-Loss Insurance program. Property insurance insures against the risks of the property being destroyed or damaged by theft, fire, lightning, accidents, and other significant events. Property insurance is required by a number of different bodies, including government agencies. Companies often must have certain kinds of property insurance to qualify for loans. Landlords may also require tenants to obtain certain kinds of property insurance.

9.2.1. Key Principles of Business Insurance

Commercial insurance, also known as business insurance, business liability insurance, or business property insurance, is an insurance product that covers the assets of businesses, from small single-owner operations to larger multinational enterprises. It protects those businesses against risks that could undermine their usual operation in a timely manner. Commercial insurance is important for any business, as it provides security for the enterprise so that the manager can focus on other areas, instead of worrying that any damage, fraud, or lawsuit may disrupt the normal operation of the business. Due to its very nature, businesses require a specific type of insurance that can be usually classified in three main types. The most common type of business insurance is property insurance, providing coverage for businesses against loss or damage to business property. The second type of commercial insurance is liability insurance, which provides coverage against lawsuits for harming others. The last one is workers' compensation, whose purpose is to compensate employees injured while working. The primary principles of business insurance are insurable risk, insurable interest, indemnity, subrogation, utmost good faith, and contribution.

To commence with, insurable risk refers to the probability of occurrence of a specific event. For a business to be entitled to an insurance product, the risk of occurrence must be determined by an insurer. The second principle is called insurable interest; a business is said to have an insurable interest in a commodity if it has a property, credit, or liability interest in such a commodity. The third principle is indemnity; business insurance does not mean that business is entitled to earn a profit due to a covered event occurring. Rather, it means that once the damage is appraised, business will be reimbursed for that amount. The fourth principle is subrogation; after making a payment to the insured business, the insurer may take legal action against the party responsible for the loss. The fifth principle is utmost good faith; it refers to the duty of the parties involved to act honestly and disclose all relevant facts. The last principle is contribution; when business has taken out more than one insurance policy covering the same insured loss, the different insurers pay a part of the loss.

9.3. Types of Commercial Insurance

Commercial insurance is about protecting the person from losing what they've built. There are four different colors of commercial insurance, Property, Liability, Workers' Compensation, and Business Interruption Insurance. Each of these clearly has a different purpose but basically protects different types of risks. Property insurance protects from losing property you own; Liability insurance protects you losing money by being responsible for damages to others; Workers' Compensation pays your employees when they're injured, so you don't lose your labor costs; and Business Interruption Insurance fills in lost revenues when business is put on hold due to a disaster. Each is different and each is important. Not all businesses need all four types but depending on the type of business, all four colors will be needed.

Property Insurance is designed to cover damages that you can repair in order to resume your business. Usually, it is composed of policy sections that define covered buildings, the belongings within, and then lists perils. Commercial property insurance covers the cost of damage to a business's physical premises and property contained within. While you may own the place you're operating in, for many businesses, your biggest investment is your inventory. If that's damaged in a fire, flood, or earthquake, your largest investment will be gone. While costs to fix your property will be covered in repair, you also have to think about the fact that nobody will be there while repairs are going. Any losses of sales due to damage from a covered peril may be covered by Business Interruption Insurance. Finally, if it's your business equipment, your pipes, wires, or a roof that gets damaged, the property insurance policy should pay for the cost of repairs or replacement.

9.3.1. Property Insurance

Insurance covers unforeseeable financial losses and liabilities to third parties occurring while doing business. The insurance market provides a vast number of contracts covering a number of different risks. In some cases, certain kinds of insurance are legally required, for example auto liability for driving on public streets. However, most insurance is commercially arranged and not mandated by law, although the threat of insolvency provides a significant motivation for a corporation to consider buying insurance.

The risks must be evaluated and defined in detail before coverage is arranged. In some cases, insurance companies provide generic insurance contracts that are useful for many types of risks. In other cases, specific and extensive analysis of the possible risks is required to come up with a custom tailored solution. Companies undertaking unusual risks will pay more detailed attention to risk and may be driven to use a combination of insurance contracts, retained earnings, or other capital market funds to cover possible losses. This essay presents an outline of the types of insurance policies available to corporations and discusses some of the factors necessary to consider when designing an insurance program.

Property insurance covers the property of a company against specified hazards, such as fire, windstorm or theft. It may cover transportation of property, valuable papers or loss of income from the business personally in the event of suspension of operations due to loss of insured property. Authorized property insurance covers a hospital building and the property inside owned by the hospital, such as beds, furniture, and equipment. The major areas of property hazard are: (1) real, (2) tangible personal, (3) machinery and equipment, (4) income, (5) personal, (6) legal and (7) customers. Companies can take a number of different approaches toward insuring their property. They can rely on a combination of insurance, self-insurance and risk avoidance.

9.3.2. Liability Insurance

The business environment can be dangerous. Especially for those that interact with the public. A hospital has a high likelihood of accident and injury occurring on its premises but has little control over the situation. For this reason, business insurance is required effectively creating a safeguard to help the company with expenses arising from liability claims. Liability insurance pays for the expenses incurred for damages arising from accidents that occur on the business premises or are the result of business operations.

An example where liability insurance may be helpful would be a child getting injured at a play park owned by a local group. If the child injures himself because of some bad construction or maintenance of the play equipment the child could then sue the owners for damages. If awarded damages by a court, the insured is responsible to pay them and liability insurance would then help cover the expense. Liability insurance comes in two forms. One, the general liability coverage protects against claims for bodily injury or property damage. This coverage is usually required by more companies. Second, specialized liability coverage is tailored to specific business needs. For example, you may have errors and omissions that specify coverage for businesses that offer professional services. Or, directors and officers insurance for protecting the executives of a corporation.

Liability insurance is generally not that expensive and can save companies from excessive damages being awarded to plaintiffs. Liability insurance takes the financial liability away from the insured and gives it to the insurance company. It makes sense, especially since lawsuits have been increasing, to have these expenses covered by a company that deals specifically with risk management. Commercial liability insurance is usually an insurance policy set up on a per occurrence basis. This means that coverage is on a claim-by-claim basis.

9.3.3. Workers' Compensation

One of the most common workers' compensation insurance coverage programs is not itself compensation insurance, but covers employers in the event that an employee sues on account of some on-the-job accident, and that lawsuit is not barred by a workers' compensation immunity. A lawsuit for an employee's work-related injury is usually barred by workers' compensation statutes providing that the injured employee cannot sue for damages; the employee's only remedy is to collect under the workers' compensation insurance program. However, a lawsuit from an injured employee is sometimes allowed; for example, if the injury is caused by the employer's intentional torts, or if the employer is uninsured and has violated the workers' compensation statutes, and the employer is liable for damages in excess of the amount payable by the workers' compensation insurance program.

Most workers' compensation insurance plans are designed to cover the employer for scheduled amounts that reflect the costs of labor. Each business is assigned a manual premium rate for each type of job specified by the manual. The manual premium is a composite of the rates for all job operations. These two components are combined to form the total premium. Since disability benefits are funded through insurance premiums paid by employers, they are not income or payroll taxes in the typical sense. Employers are required to purchase workers' compensation insurance from private companies or, if their payrolls are very small, by joining a group of employers and canvassing equivalent group insurance. Such costs have a negative impact on the employer, but they are figured into the overall costs of doing business.

9.3.4. Business Interruption Insurance

Business interruption insurance protects owners and operators from losses suffered as a result of temporary closures. Each type of coverage is different, and some may work better for certain businesses than others. Since coverage is generally selected in the beginning of a policy period, it is important to have the right coverages for your business needs.

Business owners generally expect to lose money when a disaster causes physical damage. They also expect their insurance to cover those losses. But business interruption or business income coverage does not always apply! Business interruption insurance is designed to replace lost income for a specific time period. Unfortunately, many situations are not insured. For example, what if a flood, fire, or hurricane damages your property but no products are lost? There may be no business interruption coverage, yet your business may still lose income while it is closed for repairs. Business interruption insurance helps replace income caused by physical damage to the business's premises. In some cases, insurance will even cover income lost from damage to a nearby business.

Business interruption insurance should be part of a well-constructed insurance policy for any company. However, there are problems with estimating how much coverage your business should have. You may think you know the answer. Just take your business profits--net profit before taxes--and multiply it by some number representing how long you think it will take to recover. What you end up with, however, may not be right. Most business interruption insurance policies are written for small businesses. For example, formulas have been developed for determining the loss of business for entertainment facilities, hotels, restaurant chain franchises, and others. However, with the complexity of many businesses today, even the most seasoned adjuster will tell you that the estimates provided by business owners can be wildly inaccurate.

9.4. Risk Assessment for SMEs

Sophisticated risk assessment models and best practices are usually reserved for large corporations. This is unfortunate; sophisticated risk oversight creates value and decreases losses for, not just the corporation, but also the customer's experience, and therefore their loyalty. SMEs can benefit from adopting a custom approach to risk management. Risks are generally classified in three categories: (1) Business risk:

Forecasting risk; price risk; credit risk; product risk; customer base risk; location risk; brand value risk. (2) Owner risk: Personal liability risk; personal assets risk; personal credit risk. (3) Asset risk: Equipment risk; technology risk; data risk; building and facility risk; inventory risk. Business interruption risk: supply chain risk; liquidity risk; regulation risk; compliance risk.

Where possible, risk should be prioritized by severity and probability of occurrence. A custom total risk profile includes all three categories and a risk response strategy: Avoid, Control, Compensate. There are very real advantages to consulting with the insurance broker during the risk assessment process. Brokers have a bird's eye view of their clients' business risks in comparison to other companies in the same sector and can validate decisions in adopting a custom risk management plan. The creation of a risk profile is also a good time to consider deductibles. Opting for a higher deductible represents a cost control tactic.

9.5. Risk Management Strategies

Before an appropriate business insurance policy can be put in place to suit a corporation's or SME's needs, there must be an effective risk management strategy in place. A risk management strategy means getting an overview of a corporation's needs and means, and things that can go wrong that would threaten the corporation's existence or impede the business's operation and profits. This overview involves consideration of the company's assets, industry, reputation, location, type of product, market share, number of employees, and any special conditions, such as earthquake or flood zones. With this overview in mind, the corporation or SME engages in risk reduction/mitigation strategies. If a corporation or SME does not consider a potential risk or does not engage in risk assessment, it may find itself exposed and unprepared to deal with that specific risk if it materializes. The corporation or SME carries out risk assessment by identifying and evaluating risks, followed by an adoption of steps aimed at risk reduction/mitigation strategies that suit its specific business needs.

The corporation or SME does risk identification by taking into account every aspect of the business, and asking itself, using several minds, several scenarios, including worst case scenarios: What aspects of the business could prevent us from running our business, affect our profitability, even jeopardize our existence? Insurance brokers and insurance agents have training and expertise in risk identification, and it is recommended that the corporation or SME get expert advice from insurance professionals. Once the corporation or SME identifies potential risks, it can evaluate and prioritize those risks by determining which risks are likely to affect the company's assets and perhaps sustainability, and doing this according to probability of occurrence, percentage of real loss, effect on company resources, and potential business disruption and related damages. The corporation or SME may consider the following types of risk: property, liability, personnel, business interruption, errors and omissions, industrial disaster or accident, environmental hazard, legislation, regulatory rules and guidelines, marketing, fiscal policies, cybersecurity, and fraud.

9.5.1. Identifying Risks

What are the risks that the business faces? Is the business exposed to financial losses due to theft of money and property, loss of stock-in-trade, business interruption, negligence, or professional error? Is the technology or physical project that the business is working on protected? Is the business's image, employee retention, and customer loyalty at risk? Are critical staff members and resources adequately supported? Are relationships with suppliers endorsed? Is the company financially secure? Finally, is the technology/domain in which the business is operating protected from potential future harm?

Answering these questions requires intimate knowledge of the workings and policy priorities of the business. Risk-averse business owners will want to mitigate their business risks to limit exposure to uncertain losses. Risk-neutral entrepreneurs may want to focus on excessive risks that can lead to unexpected payouts but may also yield unexpectedly high returns. Risk-seeking individuals may disregard risk management in favor of more wealth or emotional gain. Unfortunately, risk seeking increases the chance of loss that, in practice, will ultimately shift to taxpayers or other businesses. Though risk seeking may be an individual choice, more often than not, the outcome and costs of excessive risk-taking extend beyond the individual organization.

Risk managers need to acknowledge business stakeholders such as customers, suppliers, competitors, owners, creditors, investors, and the public at large. For publicly-held companies, the focus is likely to be primarily on investors in the business, while privately-owned companies may assign priority to individual owners. Any individuals or groups other than the shareholders that are affected by the business activities are called stakeholders.

9.5.2. Evaluating Risks

After identifying potential risks that your business may face, you will want to analyze these more carefully, ideally scoring each threat based on specific factors, in order to evaluate risk probability and severity. The results of this process will help you prioritize which risks to address; which, if any, to avoid; and what proactive measures are needed to manage the risks that are most likely to occur and could cause the most extensive harm. Evaluating Risk Decomposition – because risk comprises both probability and severity, evaluating risks often involves decomposing those two factors to arrive at a more nuanced understanding of what could happen, how likely it is to happen, and the costs involved if it happens. Common questions that need to be considered when evaluating risk include the following: • When and how often will the risk occur? How long will it last? • How severe will it be? Is that severity likely to change over time? • What are the chances that the risk will be triggered by known or unknown events? • Are there combinations of factors or events that could trigger this risk with greater probability or severity of impact? • What additional events or circumstances would help or hinder the firm's preparation for this risk? • What can the firm do to accelerate, postpone, mitigate, or avoid the impact of this risk? What will it cost? What will the risk prevention and mitigation plan accomplish? • Has the firm been impacted with this risk before? How have other firms been impacted? What related events have impacted these firms? How have those impacts been mitigated or avoided? The responses to such questions will help both the firm, and its insurers, assess the risk probability and loss impact. In turn, you and your insurer can then prioritize which risks to prepare for and which mitigation measures to implement.

9.5.3. Mitigating Risks

Mitigation strategies help reduce the severity, magnitude, or damage of a risk. Since the objective of risk management is to minimize the impact of risks on the organization, it is essential to identify which risks deserve mitigation efforts and which can be accepted or ignored for now. This determination involves using decision tools to compare the risk impact and likelihood estimates. Then these estimates are compared to applicable risk criteria, such as tolerance levels, to determine if the risk requires mitigation. However, risk mitigation and potential risk responses are considered for each risk during the analysis since they influence the estimated impact if the risk occurs, the likelihood of occurrence, and the risk category. The decision to implement mitigation strategies may depend on the responsibility, expertise, timeline, and budget for doing so. Strategies may include response approaches for addressing the root causes or the consequences of the risk, in addition to reducing the impact and likelihood or enhancing the outcome of an opportunity. The available techniques, tools, or options for these activities include the following: 1. Accept the risk with performance requirements and sufficient contingency for time and budget. 2. Eliminate the risk source by mandating safe practices, avoiding a specific action that could trigger the risk, or changing the project scope. 3. Reduce the risk likelihood or impact by establishing compliance testing, requiring expert knowledge in the performance or development of an activity, establishing early warning detection and monitoring, developing prototypes, conducting training, implementing project tool and template requirements, or planning for alternative actions.

Fig 9 . 2 : Strategies for Risk Mitigation

9.6. Customizing Insurance Plans

Commercial insurance and business insurance plans provide critical protection to small and medium enterprises (SMEs) from financial losses that arise due to exposure to various risks during their business operation. Insurers, due to emerging competition, are keen to earn the business of these small and medium-sized units by providing them with customized solutions. Therefore, commercial and business insurance plans are frequently designed to suit the unique needs of different types of SME units. These plans are usually devised in consultation with insurance specialists. Following are the two major dimensions in which coverage and premium of a commercial insurance plan can be customized.

The coverage under a commercial and business insurance plan can be made to vary according to the specific business operation of the insured. Businesses engaged in manufacture of different types of products have different value chains and face differentiable risks. Therefore, the exposures of a business in sectors such as electrical and electronics, textiles, chemicals, petrochemicals, pharmaceuticals, fertilizers, infrastructure development, steel, and food and beverage, to name just a few are never alike in terms of scale and extent. In the service sector, those involved in business operations such as financial and investment, travel, hospitality, information technology, telecommunications, health and beauty, and event planning confront different forms of insurable susceptibility. They too require specific commercial plans. Further, there are unique classes of businesses such as craftsmen, new ventures, consultants, and repair shops whose risk exposures tremendously differ with those of other businesses. Simply stating, risks are never identical in the case of different types of those who constitute the universe of small and medium enterprises.

9.6.1. Tailored Coverage Options

Commercial and business insurance plans are usually presented in packs that come with collective coverage of standard risks that businesses generally face. These "one-size fits all" solutions are rarely homogeneous given the differences in the nature of operations, risk profiles, employee contract types, and numerous other factors. Large businesses have specialized needs, faced with specialized known risks, and it makes sense for them to customize coverage options that exclusively protect their interests.

A major drawback of standard insurance plans available in the market is that they include coverage of risks that are not applicable to your business. Each risk can individually impact the business, yet, premium calculations are never carried out on a one to one basis. Instead, insurance companies calculate proposed premiums depending on millions of other clients, business models, and collective risk profiles. Most corporate holders will find that the premium they are paying for coverage of a standard variety of risks is higher than the premium it would take to insure only a select number of common but critical risks that apply to their business operations. The first step towards making an insurance plan a better fit for your business is to zero in on the primary areas you want coverage against. As a corporate leader, you can also consider checking if high-retention insurance plans are applicable to your business model. These plans are designed to encourage companies to use their insurances with careful consideration to possible losses and therefore have higher deductibles. These types of plans can function as a cost-investment feature, with premiums lower than traditional insurance proposals, if the risk area is carefully screened before you decide on going towards coverage.

9.6.2. Flexible Premium Structures

The development of premium payment options is also an important variable in the custom design of a group's benefit package. Claim costs for a group may vary significantly over the policy period with unexpected surges in medical claim costs. An organization that self-funds a portion of claims could find cash outflow at significant risk for limited periods of time, especially during transitional years, when it is moving from fully insured to self-insured status. Retaining specific and aggregate stop-loss coverages would mitigate the risk of cash outflow.

For this reason, and others, some organizations prefer annual payment arrangements that contain progressively larger premiums during the course of the policy term. An advantage of fixed annual premium contracts is that they permit organizations to distribute risk over the entire year, enabling them to budget for the additional – but temporary – expense of benefit provision more easily. The disadvantage is the risk that the organization will not have to recapture its excess payment.

From the insurer's viewpoint, risk-sharing insurers have a strong preference for fully insured contracts with predictably level annual premiums because the performance of the insurer actuary, who estimates both premium levels and the ability to reserve for anticipated losses, is critically important to portfolio profitability. On the other hand, predictable levels of premium cash inflow support annual company operations, while somewhat increasing market share. What the market needs, therefore, is a flexible program that allows easier claims budgeting for part of the year, while recognizing that too much should go to fund company reserves during months of low claims activity. The alternatives for meeting this market need are multi-year reserving and risk-deferral contracts.

9.7. Legal Considerations in Insurance

The insurance function operates in a legal and regulatory environment that imposes constraints and provides opportunities on the design, pricing, and marketing of products and services as well as delineating the insurance firm's boundaries. Laws relating to: (1) the creation and termination of the insurance contract and the rights and duties of both parties while the contract is in force; (2) financial strength standards; (3) reserve and related asset tests; (4) investment risk assessment; (5) setting of policy prices; (6) distribution of profits; (7) assessment of insurance market power; (8) risks against which coverage is provided and the events invoking liability; (9) avenues for settlement of claims; (10) grounds for claim denial; (11) indemnity and subrogation rights; (12) the relationship among insurers and the insured; (13) erroneous representation of the contract by an agent; and (14) unfair marketing and claim settlement practices are imposed primarily at the state level.

Part of the lawyer's advice to a client about the purchase and use of insurance is about how to use the insurance policy. This advice includes (1) ensuring adequate replacement value coverage, (2) insuring against loss due to depreciation, (3) understanding exclusions for coverage, (4) understanding excessive deductibles that limit insurance protection for small losses, (5) understanding the potential for co-insurance limits in loss situations, (6) insuring all needed coverages, (7) maintaining up-to-date, accurate records for reporting losses in an insurance claim situation, (8) meeting only standard underwriting guidelines for insurance coverage and limits, and (9) understanding why certain coverages are more expensive and searching for less expensive alternatives to utilizing insurance.

9.7.1. Regulatory Compliance

Insurance companies are subject to myriad and ever-changing state regulations. Nearly every state regulates solvency reserves, an important concern of insurance regulation. Other areas of concern may include rate regulation; unfair and deceptive practices; licensing; policy forms and endorsements; claims payment procedures; underwriting practices; agent licensing and conduct; and unfair discrimination in various areas, including policies offered, premium levels, exclusions, and adjustments. Some of these are generally of less concern to commercial insureds.

The regulation of rates and policies is primarily restricted to small business or "commercial" values. Larger commercial insureds can generally purchase nearly any kind of policy and coverage they want, if they can pay for it. Among other and primarily descriptive restrictions, all excess and surplus lines and reinsurance insurance companies are regulated to a much lesser extent than admitted lines companies of coverage. Admitted lines are those in which the company seeks to ensure itself against significant claims. Admitted line companies are therefore often in more danger than surplus lines specialists who seek to limit their exposure. Therefore, regulation is written generally for the protection of admitted lines companies by the acknowledgement that independent underwriters who accept only limited risks in practice, need less regulation than companies that will tend to take risks in the aggregate. Where there are both surplus lines and admitted lines for a particular risk or group of risks, the admitted lines company may somewhat or largely predominate upon the volume of business. Due to the nature of excess and surplus lines, the withdrawals or defaults of such companies are less likely to destabilize the insurance marketplace than admitted lines which welcome all types and sizes of business and coverage.

9.7.2. Contractual Obligations

Insurance brokers are professionals who help businesses secure the proper coverage for the right risk. The professional relationship between the broker and the business is often taken for granted and the confidentiality, diligence and good faith duties owed to each other are often overlooked. A broker must act in the utmost good faith to get its clients the best policies to fit their needs, and clients should not act unfairly in seeking to get the benefit of someone else's efforts and expertise without paying for it. We have seen many disputes where the broker was not compensated, causing unnecessary acrimony between the parties, as the business had believed there was a prior deal, yet neither had organized a file for the other.

Also, a broker should understand the coverage limits and exclusions of policies it presents to business clients. The fundamental groundwork for such disputes will rely on the agreement between the broker and both, the client and the respective insuring companies. Recently, a city that had the duty to defend and indemnify against its claim for environmental liability was denied coverage of the third party claims under a comprehensive general liability policy issued to a contractor based on environmental policy exclusions, as the contractor had failed to provide its insurer with site-specific notice of a claim existing prior to the issuance of the endorsements in question that were part of the respective insurance policy contract.

As with other professionals, insurance brokers should have clear retainer agreements with their clients setting forth their duties to avoid disputes regarding the nature and extent of each other's obligations. Further, as the agreements have several implications, we will not provide a blanket recommendation. Nevertheless, the failure to memorialize the relationship could be detrimental to all parties and lead to extended, costly litigation.

9.8. The Role of Insurance Brokers

To understand the role that an insurance broker plays in business insurance, it is useful to contrast this function with that of an agent selling a policy for an insurance company. An insurance agent is a representative of a particular insurance company and sells products for that company. An agent may also be covered by a restricted or exclusive agency contract and can thereby offer only certain types of insurance, and in some cases only one type, for a given client. Some insurance agents are also consultants and evaluate clients' needs before recommending one or more specific products. A broker for a particular account is not employed by any one company. Brokers are agents for the policyholders, working on behalf of the buyer rather than a company. This distinction is an important point to keep in mind. An agent is responsible to the insurance company, while a broker is a client representative. It is important to stress that a well-established insurance agent knows quite a lot about insurance, insurance coverages, and insurance contracts. In most cases however, because of their specialized knowledge in the insurance business, brokers are the professionals who take leadership in the business insurance process.

The function true insurance brokers perform is helpful to the buyer of the insurance policy. The experience of a broker will not only lead him to find out the various coverages, conditions and warranties of all the policies offered by the insurance markets concerned, but he will also be able to do so more quickly than anybody else would. The distribution of insurance is changing rapidly, both for personal lines and for commercial lines. Nevertheless, there are some advantages brokers have. They provide personalized service to their clients, offering a special kind of responsiveness. For small business clients in particular, their knowledge of the specific firm, as well as their long-standing relationship with the business owner, make the broker's service different from the impersonal service offered by direct marketers of insurance.

9.8.1. The Value of Insurance Brokers in Business Insurance

Direct to consumer marketing is here to stay. Just as people can and do choose their own doctors, architects, accountants, or lawyers, so they can also select their own financial service products. Yet for the more complex layers of risk prevention and risk transfer, profitably supplied in a custom-based way with technical assistance, no form of direct marketing will prove more advantageous than the intermediation model. Entering the market to obtain quotes and facilitate negotiations with insurers, brokers are in a unique position to assist customers in each of the critical stages of relationship management - measuring risk, negotiating price and terms, evaluating the cover, personalizing exchanges, keeping promises, processing claims, and building bonds post-sale. Yet they add value only if they are highly specialized, know and trust their partners, and are well compensated for their expertise. In other words, a broker is first and foremost a distributor, specialized in a single sector and supplier of a technical selection and support service.

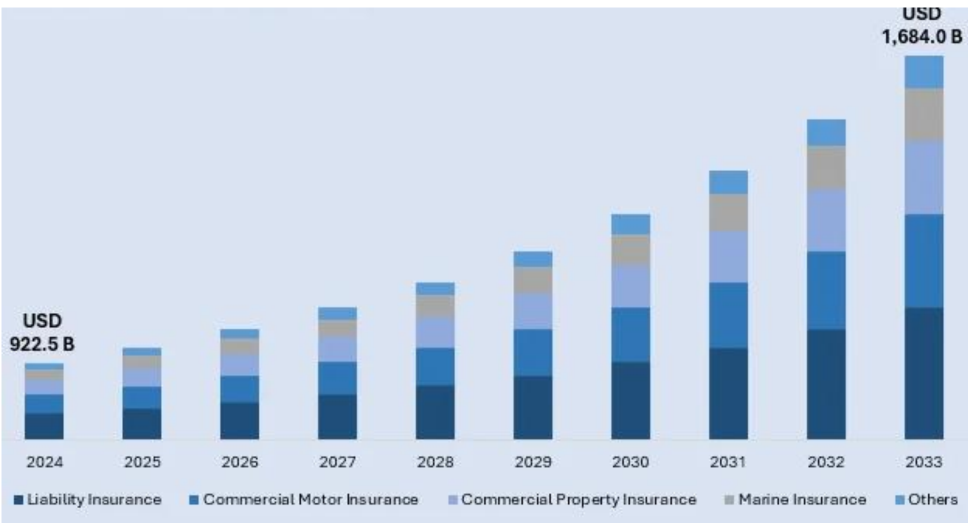

Fig 9 . 3 : Commercial Insurance Market Size

Today in most European countries, commercial and corporate insurance continues to be placed largely via the independent broker channel. And in many markets, brokers are the dominant distribution channel for commercial construction. The role of brokers is still central despite the fact closing the missing axis has seen an increase in direct online offerings, co-existing with traditional distribution approaches. Such developments have offered customers not necessarily greater choice, but certainly lower costs, removing brokers from the process. Because of the investment required by insurers in technological infrastructure, customers are left with rather basic, clients seeking more than just lower prices, now see the value in their agent or broker. They understand the alternatives and the importance of services such as risk analyses, property, and business income coverage verification, claims advocacy.

9.9. Conclusion

The non-life insurance industry has undergone sweeping changes in recent years, with the sophistication of risks being insured, the amounts at stake, and the variety of novel financial instruments being employed. Whether an organization is protecting its employees or safeguarding its brand's reputation and shareholder's wealth through a formal program of commercial insurance, it is interacting with an unusual system of intangible economics, with asymmetries of bargaining strength, ongoing cash flows, arcane taxes, and uncertainty surrounding the eventual outcome. Therefore, the present essay outlines the process of tailoring a selection of commercial and business insurance plans for SMEs or corporations to help manage commercial risks to which its assets and operations are exposed.

The purpose of the topics covered in this essay is to give risk managers a thorough grounding in the issues raised when structuring a program of commercial insurance, with the aim that they will look for and take advice from those seriously knowledgeable in this specialized field of a company's investment process. Accordingly, the text is not intended as a how-to manual of commercial insurance. Rather it is a source of ideas, consolidated in a comprehensive framework of structural convenience, formulation, plan design, and system management. The essay discusses the principal types of commercial insurance in some detail while largely avoiding the microscopic details. Therefore, in the present discussion, there is a conscious effort to avoid unnecessary jargon, as well as to not reduce the crucial but simple economic principles underpinning the activities of both the insured and the insurer to a set of rules to be followed without question.

9.9.1. Final Thoughts on Commercial Insurance Essentials

Ideally, risk management for businesses should include strategies both to avoid certain kinds of costs and to cover certain types of costs. The ramifications of what can happen if you ignore certain events are grave. And so insurance is there to make sure, in the event of an unfortunate incident, that your financial losses are minimized, and that the effect on your business and person are as little as possible. Commercial insurance is, then, a cost where you get what you pay for. Cheap coverage will almost always result in disputes over the validity of a claim, and less coverage. Coverage limits are also crucial, and often overlooked. Certain industries, like construction or agribusiness, are much more prone to naturally occurring disasters, such as tornadoes, hurricanes, or floods. In those areas, on top of getting the most thorough insurance possible, you need to be aware of which insurance companies are capable of paying out large claims and are reliable, and which companies are not. Finding a good insurance agent is paramount. In addition, review what your needs are periodically so that the level of coverage you are paying for continues to meet your company's needs.

There are a great variety of insurance products available, as business is broadly defined. We covered some of the common policies; however, there are other types of coverage that look very much like the policies we have defined in terms of being component parts of larger packages. The coverage typically corresponds to the service: cyber insurance, for example, is a relatively new coverage due to the society we live in. As technology advances, it becomes more and more important to protect and insulate from disaster your company and your company's data and resources, as the financial costs of a major hacking or theft event could lead to bankruptcy.

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