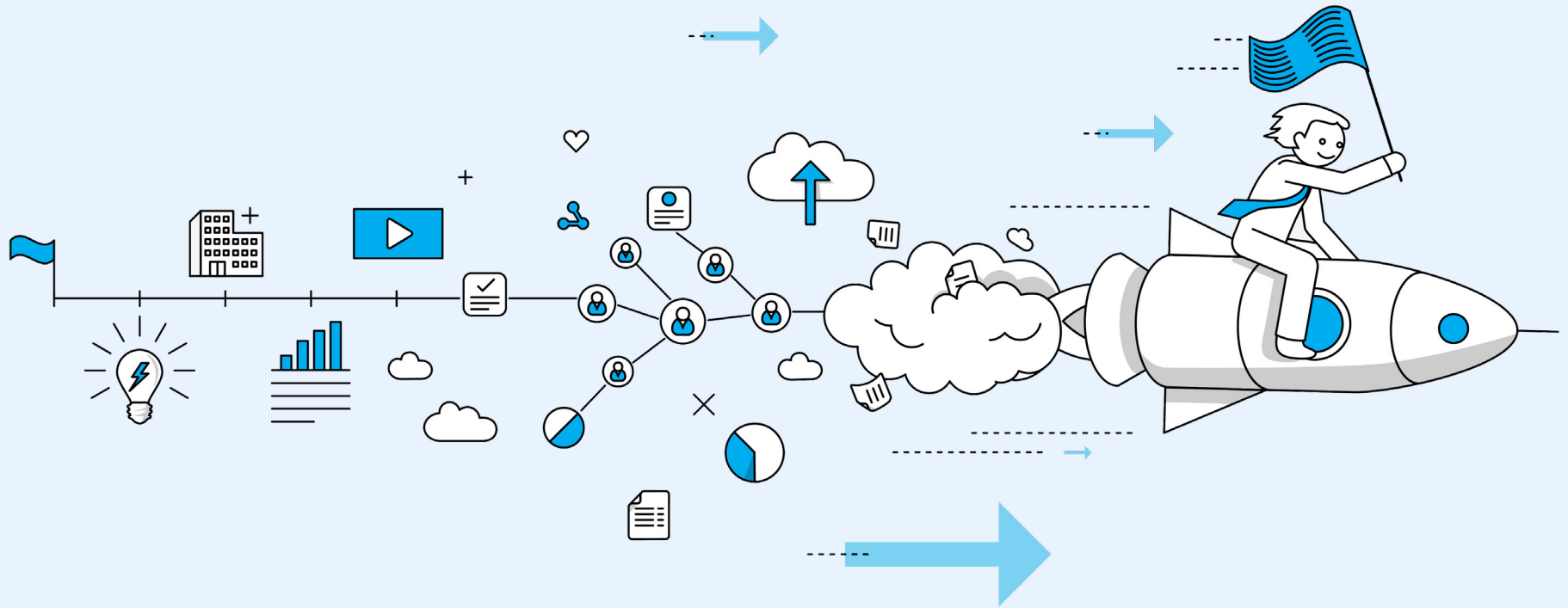




# General Insurance & Risk Management Purchasing Guide

Making Risk Management a Priority as your Firm Grows





# MAKING RISK MANAGEMENT A PRIORITY AS YOUR ORGANIZATION GROWS

Risk Management is an important structural element in the protection of any business or organization. This insurance and risk management guide provides a summary of the evolving, interconnected risk management paths. Executives and managers in these fields may find it useful for identifying risk management concerns that warrant further investigation and discussion.

This document is intended as a guide on the journey toward developing "risk intelligence", by assisting all personnel in an organization to broaden their perspectives on risk and improve their ability to execute risk-related responsibilities.

The guide can be used to spur discussion, and planning, about your commercial insurance and risk management journey as the firm grows. This guide should be used as one part of an overall risk management program and planning guide.

Provided in this guide is a summary of the most common types of commercial insurance coverages purchased by growth companies. Due to the unique nature of every company, the timing of insurance purchases and risk profile will vary. Insurance policies should be reviewed carefully for specific coverage terms and exclusions. This is not intended to cover all insurance products available in today's marketplace.

Usage limitations: This document may be used by your organization for its internal business purposes only. This document is general and contains basic information only. HRO Resources recommends that you work with our service team to customize this guide to match your unique risks and exposures.



# PURCHASING MILESTONES

<b>Insurance Coverage</b>	<b>Startup IGNITE Seed, Accelerator</b>	<b>Early Stage LIFT OFF Series A</b>	<b>Emerging Growth ESCAPE VELOCITY Series B-D, Debt, IPO</b>
General Liability	✓	✓	✓
Workers Compensation	✓	✓	✓
Key Man Insurance	✓	✓	✓
Commercial Property	✓	✓	✓
Business Auto	✓	✓	✓
Products/Completed Operations		✓	✓
Technology Errors & Omissions		✓	✓
Cyber Liability		✓	✓
Property in transit		✓	✓
Umbrella		✓	✓
Directors & Officers		✓	✓
Employment Practices		✓	✓
Crime			✓
Difference in Conditions			✓
Fiduciary Liability			✓

**Note:**

The purchase of insurance coverage can often times be aligned by company financing stages.

On occasion, a startup may need to purchase additional coverages that align with their exposure.



# SOLUTIONS BUILT FOR EVERY STAGE



**For Startups**

**IGNITE**



**1 - 10 Employees**  
Seed / Accelerator

**LEARN MORE**

**For Early Stage Companies**

**LIFT OFF**



**11 - 50 Employees**  
Series A

**LEARN MORE**

**For Emerging Growth Companies**

**ESCAPE VELOCITY**



**50+ Employees**  
Series B - D, Debt

**LEARN MORE**

# APPENDIX OF INSURANCE COVERAGES



Types of Commercial Insurance Coverage	Typical Reasons why Insurance Coverage is Purchased	When Insurance Coverage is Typically Purchased	Premium Basis and Basic Underwriting criteria
<p><b><u>GENERAL LIABILITY - PACKAGE</u></b></p> <p>General Liability – Premises Liability A standard insurance policy issued to business organizations to protect them against liability claims for bodily injury (BI) and property damage (PD) arising out of premises, operations, products, and completed operations; and advertising and personal injury (PI) liability.</p> <ul style="list-style-type: none"> <li>Exposures will increase with visitors to premises. The most common business liability protection is a General Liability policy. As the name implies, these policies cover fewer specific risks as opposed to the more specific types such as automobile liability, aircraft liability, or professional malpractice liability. These are covered under separate specialized liability policies.</li> </ul>	<ul style="list-style-type: none"> <li>Required by landlord</li> <li>Required by bank</li> <li>Prudent business practice</li> <li>Usual contract requirements</li> </ul>	<ul style="list-style-type: none"> <li>Immediately upon establishment of the firm</li> </ul> <div data-bbox="1207 483 1423 555" style="text-align: center; background-color: #00AEEF; color: white; padding: 5px; border-radius: 10px; display: inline-block;">GET A QUOTE</div>	<ul style="list-style-type: none"> <li>Square footage</li> <li>Payroll</li> <li>Revenue</li> </ul>

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<p><b><u>WORKERS' COMPENSATION:</u></b></p> <p>Workers Compensation policies include two basic Coverages.</p> <p>The first coverage provides benefits for employees injured on the job. These benefits are determined by state law.</p> <p>The second coverage is Employer's Liability. This section covers suits by employees (or their family members) against their employers for job-related accidents.</p> <p>Workers Compensation laws often limit the liability of employers to employee suits, but suits do still occur.</p>	<ul style="list-style-type: none"> <li>Required by most States for employees</li> </ul>	<ul style="list-style-type: none"> <li>Immediately</li> </ul>	<ul style="list-style-type: none"> <li>Workers Compensation class</li> <li>Workers Compensation rate applies per \$100 of payroll based on job classification</li> </ul>
<p><b><u>KEY MAN INSURANCE:</u></b></p> <p>Life insurance owned by a business entity on the life of a key individual that will, in the event of his or her death, offset a loss in earnings and provide the funds necessary to find, hire, and develop a replacement.</p> <p>It is designed to offset losses resulting from the death of a key person, such as reduced sales, interruption of a vital research project, flow of production, or an impaired credit standing.</p> <p>Company becomes beneficiary in the event of death to critical employees.</p>	<ul style="list-style-type: none"> <li>Required by investor(s)</li> </ul>	<ul style="list-style-type: none"> <li>Immediately</li> </ul>	<ul style="list-style-type: none"> <li>General health, age of individual</li> <li>Smoker, Non-Smoker</li> </ul>

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<p><b><u>BUSINESS AUTO:</u></b></p> <p>Covers physical damage to owned or leased vehicles and third-party claims alleging bodily injury and property damage.</p>	<ul style="list-style-type: none"> <li>• Prudent business practice</li> <li>• Usual contract requirement</li> </ul>	<ul style="list-style-type: none"> <li>• When a company leases or buys a vehicle</li> </ul> <p><a href="#">GET A QUOTE</a></p>	<ul style="list-style-type: none"> <li>• Year/Make/Model</li> <li>• Value of car</li> <li>• No. of employees</li> </ul>
<p><b><u>PRODUCTS/COMPLETED OPERATIONS OR STAND ALONE</u></b></p> <p>General Liability – Products and Completed Operations</p> <p>Liability arising out of the insured's products or business operations. A standard insurance policy issued to business organizations to protect them against liability claims for bodily injury (BI) and property damage (PD) arising out of premises, operations, products, and completed operations. Products Liability is the liability for bodily injury (BI) or property damage (PD) incurred by a merchant or manufacturer because of some defect in the product sold or manufactured. Special exposures can arise from product contamination and product labeling and could overlap with Product Recall and Contamination exposures.</p>	<ul style="list-style-type: none"> <li>• Required by vendor</li> <li>• Usual contract requirements</li> <li>• Required by bank</li> <li>• Prudent business practice</li> </ul>	<ul style="list-style-type: none"> <li>• Immediately upon establishment of the firm, or launch of product</li> </ul> <p><a href="#">GET A QUOTE</a></p>	<ul style="list-style-type: none"> <li>• Types of products sold</li> <li>• Annual estimated sales</li> <li>• U.S. sales</li> <li>• Foreign sales</li> </ul>

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<p><b><u>TECHNOLOGY ERRORS AND OMISSIONS AND/OR CYBER LIABILITY:</u></b></p> <p>Coverage for claims alleging negligence in the provision of technology services or due to the failure of technology products. May cover, or be endorsed to cover:</p> <ul style="list-style-type: none"> <li>• Intellectual Property (copyright, trademark only, not patent – that is a separate product no trade secret – usually not insurable)</li> <li>• Media Liability</li> <li>• Internet services</li> </ul> <p>Technology E&amp;O – Technology Errors &amp; Omissions can be defined as coverage for claims alleging negligence in the provision of your technology products and services. These insurance products may be endorsed to additionally cover intellectual property, media liability and/or Internet services. Coverage availability varies and the scope of exposure differs in each organization.</p> <p>As technology companies continue to emerge and expand, generalizing about trends in Technology E&amp;O coverage has become more difficult. Elements of E&amp;O coverage have become more complex and specialized.</p> <p>E&amp;O programs now range from coverage for negligence in the provision of technology services, to protection for the design, manufacture, development, distribution, licensing, or sale of technology products.</p>	<ul style="list-style-type: none"> <li>• Required by some clients</li> <li>• Required, as General Liability will not pick up these exposures / risks</li> <li>• Prudent business practice</li> </ul>	<ul style="list-style-type: none"> <li>• Upon launching of product</li> <li>• Upon development of Web, Internet exposures</li> </ul>	<ul style="list-style-type: none"> <li>• Risks will be underwritten, and premium will be developed in several different categories:                             <ul style="list-style-type: none"> <li>• Contractual exposures</li> <li>• Size and length of contracts</li> <li>• Types of products and services</li> <li>• Quality control</li> <li>• Litigation exposures</li> <li>• Quality of management</li> <li>• Company financials</li> </ul> </li> </ul>

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<p><b><u>CYBER LIABILITY INSURANCE PROVIDES:</u></b></p> <ul style="list-style-type: none"> <li>• Coverage for claims alleging negligence in the provision of internet services.</li> <li>• Coverage for liability associated with a failure of network security.</li> <li>• Coverage for liability associated with dissemination of electronic content.</li> <li>• Coverage for Business Interruption due to certain non-physical perils.</li> <li>• Coverage for damage to one's own intangible assets (e.g. code, data, etc.).</li> <li>• May be endorsed to cover Miscellaneous E&amp;O</li> </ul>	<ul style="list-style-type: none"> <li>• Required by investors</li> <li>• Usual contract requirement</li> <li>• Prudent business practice</li> </ul>	<ul style="list-style-type: none"> <li>• When exposure is developed</li> </ul> <p><b>GET A QUOTE</b></p>	<ul style="list-style-type: none"> <li>• Contractual exposures</li> <li>• Size and length of contracts</li> <li>• Technology security</li> <li>• Number of records and transactions</li> <li>• Type of data held</li> </ul>
<p><b><u>COMMERCIAL PROPERTY AND PROPERTY IN TRANSIT:</u></b></p> <p>Covers direct damage to business personal property, including raw material, work-in progress, and finished goods while in route.</p>	<ul style="list-style-type: none"> <li>• Required by suppliers</li> <li>• Usual contract requirement</li> <li>• Prudent business practice</li> </ul>	<ul style="list-style-type: none"> <li>• When exposure is developed</li> </ul> <p><b>GET A QUOTE</b></p>	<ul style="list-style-type: none"> <li>• Maximum value per shipment</li> <li>• Total value shipped annually</li> </ul>

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<p><b><u>UMBRELLA LIABILITY POLICY:</u></b></p> <p>A policy designed to provide protection against catastrophic losses. It generally is written over other primary liability policies, such as the business auto policy, commercial general liability policy, watercraft and aircraft liability policies, and employer's liability coverage.</p> <p>The umbrella policy serves three purposes: it provides excess limits when the limits of underlying liability policies are exhausted by the payment of claims; it drops down and picks up where the underlying policy leaves off when the aggregate limit of the underlying policy in question is exhausted by the payment of claims; and it provides protection against some claims not covered by the underlying policies, subject to the assumption, by the named insured, of a self-insured retention.</p>	<ul style="list-style-type: none"> <li>• Required by some landlords</li> <li>• Prudent business practice</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluated frequently as firm grows</li> </ul>	<ul style="list-style-type: none"> <li>• Underlying premiums for GL, auto liability, and employer's liability</li> </ul>
<p><b><u>DIRECTORS &amp; OFFICERS ENTITY COVERAGE (PUBLIC OR PRIVATE):</u></b></p> <p>D&amp;O coverage insures corporate directors and officers against claims, most often by stockholders and employees, alleging financial loss arising from mismanagement. The policies contain two coverages: the first reimburses the insured organization when it is legally obligated (typically by corporate charter or state statute) to indemnify corporate directors and officers for their acts; the second provides direct coverage to directors and officers when the organization is not legally obligated to indemnify them.</p>	<ul style="list-style-type: none"> <li>• Generally required by Board at the Series A stage as the size of the Board increases when VCs and Independent Directors join the Board</li> </ul>	<ul style="list-style-type: none"> <li>• As soon as the board is formed</li> </ul>	<ul style="list-style-type: none"> <li>• Public or private</li> <li>• Management experience</li> <li>• Corporate governance</li> <li>• Company structure</li> <li>• Financials</li> <li>• Market cap</li> <li>• Size of board</li> <li>• Profile of board members</li> </ul>

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<p><b><u>EMPLOYMENT PRACTICES LIABILITY:</u></b></p> <p>A form of liability insurance covering wrongful acts arising from the employment process. The most frequent types of claims alleged under such policies include wrongful termination, discrimination, and sexual harassment.</p> <p>The forms are written on a claims-made basis and generally exclude coverage for large scale, company-wide layoffs. In addition to being written as a stand-alone coverage, EPLI is frequently available as an endorsement to directors and officers liability policies.</p>	<ul style="list-style-type: none"> <li>Required by Board of Directors</li> </ul>	<ul style="list-style-type: none"> <li>As soon as the board is formed</li> </ul>	<ul style="list-style-type: none"> <li>Human resources policies and procedures</li> <li>Number of employees</li> <li>Litigation experience</li> <li>Company financials</li> <li>Management experience</li> </ul>
<p><b><u>CRIME:</u></b></p> <p>Crime Coverage is available to business owners and protects against loss of money and/or loss involving employee dishonesty.</p> <p>These types of coverage are usually excluded or may be restricted under standard property policies.</p>	<ul style="list-style-type: none"> <li>Prudent business practice</li> </ul>	<ul style="list-style-type: none"> <li>Prudent business practice</li> </ul>	<ul style="list-style-type: none"> <li>Number of employees</li> </ul>
<p><b><u>DIFFERENCE IN CONDITIONS INSURANCE:</u></b></p> <p>An all risks property insurance policy that is purchased in addition to a commercial property policy to obtain coverage for perils not insured against in the commercial property policy (usually flood and earthquake)</p>	<ul style="list-style-type: none"> <li>Required by landlord</li> <li>Required by lender</li> </ul>	<ul style="list-style-type: none"> <li>As applicable</li> </ul>	<ul style="list-style-type: none"> <li>Total replacement cost</li> <li>Values at risk</li> <li>Construction, protection, occupancy</li> </ul>

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<p><b><u>FIDUCIARY LIABILITY:</u></b></p> <p>Protects trustees, employers, fiduciaries, and professional administrators with respect to errors and omissions in the administration of employee benefit programs as imposed by the Employee Retirement Income Security Act (ERISA).</p>	<ul style="list-style-type: none"><li>• Required by outside administrator</li><li>• Required by CPA</li></ul>	<ul style="list-style-type: none"><li>• When exposure is developed</li></ul>	<ul style="list-style-type: none"><li>• Plan assets</li></ul>

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# ADDITIONAL CONSIDERATIONS

As your business matures, we recommend that you begin to establish risk management guidelines for the following activities:

1. Real property leases
2. Equipment leases
3. Contracts with service providers
4. Contracts with suppliers
5. Contracts with temporary employment agencies
6. Any type of joint venture agreement
7. Any other contractual agreement you may have a question about

## **HRO recommends the following best practices:**

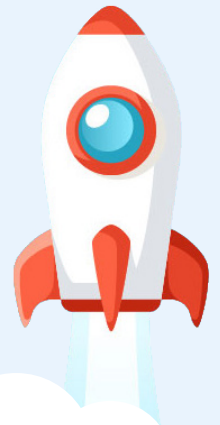
- **Establish written claims reporting procedures for all types of claims.**
- **Annually review all exposures and limits carried (perhaps more frequently with rapidly growing organizations).**
- **Establish business continuity and business interruption procedures.**
- **Establish a due diligence process and procedures for any merger and acquisition activity.**
- **Establish an internal process of reviewing all contracts for potential exposures that you may be assuming.**
- **All these agreements should be forwarded to your service team as soon as possible.**

Lastly, we recommend that later stage companies start adopting the following actions. These steps will serve as a springboard into Enterprise Risk Management, which is a broader approach to managing risks in your organization.

Board-level commitment to enterprise risk management as a critical framework for successful decision making, which will dynamically propel the value of your organization.

- A dedicated risk executive in a senior level position who drives and facilitates insurance purchasing and enterprise risk management.
- An enterprise risk management culture that encourages full engagement and accountability at all levels of the organization.
- Engagement of all stakeholders in risk management strategy development and policy enactment.
- An internal and external plan for the communication of risks.
- Integration of financial and operational risk information into decision-making processes.
- Identification of new and emerging risks using internal data as well as information from external providers.
- A move from focusing on risk avoidance and mitigation to leveraging risk and risk management options to extract value.

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**Contact Us:**

[hello@hroresources.com](mailto:hello@hroresources.com)

[www.hroresources.com](http://www.hroresources.com)

