

## **Buying Liability Insurance**

Business liability insurance, generally speaking, protects your business in the event of a loss, claim, or lawsuit. Losses can result from death, personal injury, property damage, and other causes. If you operate a climbing facility, general liability insurance is the primary type of coverage used to protect your business from these types of losses.

Business liability insurance pertains to losses or claims arising out of your liability for injuries or damage caused by ownership of property, sale or distribution of products, the provision of services, or advertising claims. General liability insurance or commercial general liability (CGL) may be the only type of business liability insurance you need depending on your business situation. However, if you provide professional services or manufacture products you may also need, or at least should consider, other forms of insurance such as professional liability insurance or product liability insurance.

Most businesses in our industry carry general liability insurance regardless of the form of the business. All types of businesses: sole proprietorships, partnerships, limited liability entities, and corporations face risks and have the potential to generate losses or claims. One of the fundamental strategies of risk management is to "transfer" risk from one entity to another, buying insurance is an example of this strategy. So it pays for you to understand what you are buying when you purchase insurance. Here are some considerations for finding the best insurance coverage for you:

### **Buying Tips**

- 1) Review your insurance needs annually and decide how much coverage you need. You should make sure that you are covered for all of your routine operations and activities up to the amounts required or recommended. In some cases, you may be required to carry a certain minimum amount of liability insurance coverage. A million per occurrence (two million aggregate) appears customary. Western Heritage is part of the Nationwide Group and is the insurer for the CWA insurance program. The CWA program's coverage is as stated above.
- 2) Ask about the strength and stability of the insurer. One way to do this is to ask for the insurer's A.M. Best rating which is an independent rating of the company's financial strength and its ability to meet its ongoing obligations to policy holders. The A.M. Best rating includes measures of financial strength, rating outlook, and financial size. You want to find a carrier that is secure, has a positive or stable outlook, and has enough surplus capital to meet its financial obligations into the future. Western Heritage is rated A+ (superior), stable, XV (over 2 billion). You should be cautious of working with insurers with less than a "B" rating, insurers that are considered vulnerable, under regulatory supervision, or with a suspended rating.
- 3) Compare the insurance policies and make sure you are selecting from comparable policies. The amount of coverage and the extent of that coverage will vary from insurer to insurer, so compare benefits, coverage, exclusions, and premiums. Request copies of the

policies and compare the coverages from the different insurers. Avoid insurers or agents that will not provide a copy of the policy for you to review. Take the time to make a good decision.

4) Ask what type of policy it is: either a "claims made" or "occurrence based" policy. With a claims made policy if a loss occurs it must be reported within the policy period or it is not covered. With an occurrence based policy if a loss occurs during the policy period and is reported after the policy period it will be covered (provided that you report the loss within a reasonable amount of time after learning about it). It is preferable to hold an "occurrence based" liability insurance policy. The CWA program is an occurrence based policy.

5) A good quality general liability insurance policy should cover you for all of the customary types of losses for your industry. Ask about what is covered by and excluded by your policy. Avoid buying several policies with each policy providing partial coverage. You should only need one good general liability policy. The CWA program should cover all of your needs if you operate a gym.

6) The cost of the insurance is determined by key exposure data (i.e. revenue, types of activities, amount of activity, loss history, etc.). Premiums will vary according to these factors – the greater the risk exposures the greater the premium. Minimum premiums appear to range from \$3000.00 to \$6000.00 per year. Ask what you might do in managing or operating your business differently that might affect your rates.

7) Ask about how the limits of your policy work. You will have a per occurrence limit and an aggregate limit for the year. Make sure you will be insured to your individual limit for the year, and that there are not shared limits amongst all the policy holders in your program. The CWA program does not have shared limits amongst all the policy holders.

8) Work with a reputable agency or insurer. Agents generally work on commission, and are paid a percentage of your policy premium as wages (generally between 8 to 11 percent). Some disreputable agencies will mark up your policy premium significantly, pocket the difference, and will still receive a commission from the insurer. Simply ask your agencies how they are paid, and avoid unethical agents and agencies.

9) Finally, work with an insurer that understands your type of business. The quality and longevity of your relationship with your insurer is important, find a good insurer and develop a good working relationship with the company over time. Insurers have information, resources, and advice that can help you control your losses and avoid costly claims, just ask.

The cost of insurance can be high when looked at as a line item on your budget. However, when compared with the costs of a claim, whether settled in or out of court, the cost of a policy is justifiable.

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