

A Consumer's Guide to

# **INSURANCE FOR YOUR BUSINESS**

from your North Carolina Department of Insurance





# A MESSAGE FROM **YOUR INSURANCE COMMISSIONER**

Insurance consumers are urged to be cautious about the status of the company that they are buying insurance from. An insurance company writing business in North Carolina can be either licensed or authorized.

A licensed company is subject to the Department's full regulatory authority: In most cases, when insurance is purchased from licensed companies consumers are protected in the event of an insurer's bankruptcy. This protection is available to North Carolina residents through guaranty associations to the extent provided for in North Carolina laws.

When insurance is not available from a licensed insurer, a consumer may purchase insurance from an authorized insurer. The consumer should be aware that the Department has limited regulatory authority over authorized insurers and that there is no guaranty association protection. In these situations, the consumer should verify that the insurer is authorized to do business in this state.

Although only authorized companies may be engaged in the business of insurance in this state, unauthorized activity does occur from time to time. If a consumer is uncertain about a company's status, please contact us at 919-807-6750 or check our web site at [www.ncdoi.com](http://www.ncdoi.com).

It is equally important that insurance is purchased from a company that is financially sound. Financial ratings of companies can be obtained by visiting the public library and reviewing recent reports from rating agencies such as AM Best, Standard & Poor's, Moody's, Duff & Phelps, or Weiss Research. A consumer can also visit our office and view the latest financial statements of any authorized company. The Department is prohibited from giving opinions about the financial condition of insurers. We will, however, provide basic financial data on any insurer to insurance consumers.

Finally, not all insurance entities are the same. Insurance purchased from certain entities may result in a subsequent assessment to the consumer because of poor performance by the entity. In these situations, the consumer may be jointly and severely liable in the event of the entity's bankruptcy. The consumer should ask about the business form of the company – is it a non-assessable insurance company or some other form of risk-bearing entity, and what the difference means to you.

*Wayne Goodwin*

## **AGENT SERVICES**

The Agent Services Division is designed to protect the general public of North Carolina by making sure the individuals representing the industry have an adequate knowledge of the industry and possess the moral and ethical characteristics necessary to operate in a fiduciary capacity. The Division's main function is to regulate all licensed agents, brokers, limited representatives, appraisers and adjusters authorized to do business in

North Carolina. This includes all activities concerning licensing, appointing and educating agents, brokers, adjusters and limited representatives, both resident and non-resident, selling insurance and adjusting claims of insurance in North Carolina.

To learn if your agent is properly licensed, contact the Agent Services Division at 919-733-7487.

## **CONSUMER SERVICES**

The Consumer Services Division of the Department of Insurance is here to help.

800-546-5664    Toll free  
919-807-6750    Outside of North Carolina  
919-715-0319    TDD (Telephone Device for Deaf Callers)  
919-733-0085    Fax

You can find additional information as well as a downloadable copy of our complaint form on the North Carolina Department of Insurance Web site at [www.ncdoi.com](http://www.ncdoi.com).

North Carolina Department of Insurance  
430 North Salisbury Street  
1201 Mail Service Center  
Raleigh, NC 27699-1201  
[www.ncdoi.com](http://www.ncdoi.com)

# INSURANCE FOR YOUR BUSINESS

## AUTOMOBILE

Virtually every business today needs a vehicle of some type: private passenger, van, bus or tractor trailer. A business needs to insure against damage to their own vehicles, injuries to third parties, damage to cargo and injuries to persons riding in their vehicles. The minimum limits are 30/60/25 and certain commercial auto limits are much higher. Rating of commercial auto policies is different from your personal auto. There is no standardization of policies, rates or rating procedures. Most insurers will consider the driving history of all parties with regard to traffic safety and obeying traffic laws. Other factors include condition of vehicles, driver experience, driver training, driver supervision, hazards of the route, loading and unloading, motor vehicle records, use of non-owned vehicles and vehicle security.

Many insurance companies have safety programs that will often reduce your rates. Ask your agent for details.

## WORKERS COMPENSATION

Workers compensation and employers liability is a form of no-fault insurance provided by the employer for the employee. The employee gives up certain rights to sue in exchange for protection from injuries incurred on the job.

Insurance rates are developed by taking all losses from similar employers and aggregating them. There are approximately 600 classifications of employers in North Carolina and the classification your company falls under will effect the rates your business is eligible for.

Rates can and do vary from one insurance company to another. Insurance companies would look at such issues as employee selection and training, first aid, medical evaluation, safety promotion, housekeeping and maintenance, material handling and protective clothing and equipment. Those businesses that employ three or more employees are required to carry workers compensation insurance except agricultural employment with fewer than 10 employees, certain sawmill and logging operations and all domestic employees are exempt.

## **FIRE AND EXTENDED COVERAGE**

Real and business personal property may need to be protected from physical loss. Such protection is normally acquired from a fire and extended coverage insurance policy. There are two types of policies extending coverage: named peril or all risks. Any specialty endorsements exist for different businesses. The type of construction, fire protection available, use of the premises, the likelihood of someone causing their own loss, contents, equipment (including electrical and mechanical) and emergency planning are important considerations from the insurance companies standpoint.

## **BUSINESS INTERRUPTION**

When a business is damaged from an insured peril, it suffers more than a physical loss to its property. Employees may not be able to work and may quit and go to work for a competitor. Customers shift to other sources. Income from operations is lost. Expenses for such things as taxes, insurance, electricity, phone, debt service and contractual obligations may continue. To protect against financial loss, a business may wish to insure its income.

## **GENERAL LIABILITY**

Commercial general liability insurance covers a wide range of liability exposures, generally grouped under premises and operations liability, products and completed operations liability, and liability for various intentional torts. There are currently two types of policy triggers which generate coverage: claims made and occurrence. Before purchasing general liability, be sure to understand the difference and how they operate. Policies provide a limit of coverage and some include the defense costs within those limits. Other areas to consider are: duty to defend, aggregate limits, contractual liability, fire legal liability and pollution exposures.

## **BONDS**

Bonds resemble insurance contracts in many ways, but they are sufficiently different to require special comments. Bonds differ from insurance in that a bond expects no loss. A bond generally guarantees performance or that certain things will, or will not, be done. Unlike an insurance policy, a bond has three parties involved: surety (generally an insurance company), obligee (owner or entity that will benefit in the event of loss), and principal (this is the entity that needs the bond

to guarantee his work or performance). In the event that the surety (insurance company) has to pay a loss to the obligee, the surety will look to the principal to indemnify the surety. Some examples of bonds: contract, bid, performance, payment, and maintenance.

## **EXCESS AND UMBRELLA**

Excess and umbrella liability policies are but a few of the many terms used to describe the various coverage formats providing catastrophic loss protection when underlying insurance is inadequate or lacking. These are liability coverages that pick up when the underlying coverage has been exhausted due to a severe claim. They do not provide primary coverage.

There is no industry standard and it is important that it match the business' general liability insurance. These also have claims made and occurrence coverage triggers and it is important to understand these concepts.

Policies will either provide a duty to defend or indemnity coverage. Duty to defend is a provision where the insurer has the right and duty to defend lawsuits against the insured, even when those suits are considered false, groundless or fraudulent. Indemnity coverage means the insured must pay up front and may be reimbursed.

Concurrency means that the policy period of the excess or umbrella policy is the same as the underlying commercial general liability. These policies can contain deductibles known as "self insured retention" which amount must be paid by the insured prior to the policy coming into play.

## **FLOOD AND EARTHQUAKE**

As a general rule, flood and earthquake coverages are not provided in standard property policies. Earthquake may be available as an additional coverage purchased from the property carrier. However, flood must be purchased as a separate policy from the National Flood Insurance Program, which is a Federal program. Further, flood can only be purchased if the county or city where the property is located is participating in the flood program. Coverages and rates are determined by the NFIP. The NFIP may be reached at 800-427-4661.

## **INLAND MARINE**

Inland marine policies are generally used to cover property that is mobile or in transit. It may also be used to insure such items as bridges and radio and TV antennas. Most policies cover physical loss although some may cover business interruption. Inland marine was the first line of insurance to introduce the concept of "all risks" (now generally referred to as direct physical loss). Valuation of property insured may be by "actual cash value," replacement value, agreed value or other types of valuation. There are a large number of terms that are applicable to this line of insurance and it is important to understand them.

## **PACKAGE POLICIES**

Most insurance companies offer package policies. These policies combine several different coverages under one policy. For example, fire and extended coverages, general liability and inland marine could be put into one policy with one anniversary date and one premium for a business. These tend to offer better coverage than the individual policies purchased separately and at a better price! Any insurance companies develop package programs for specific types of businesses.

# INSURANCE FOR YOUR EMPLOYEES

## LIFE AND ANNUITY

Life insurance products provide a monetary benefit if the insured person dies while the policy is in force. In addition, some types of life insurance policies provide an accumulated savings value available while the insured person is still alive. Annuity and other retirement savings products are designed to provide periodic income benefits. The need for life insurance and annuity benefits is as varied as the need for any other sum of money.

People commonly need funds to cover final expenses, dependents' support, education costs, retirement income and investment income.

A business-or the individuals who own the business-generally purchase life insurance and annuity products for one of two reasons:

- An individual life insurance policy can provide funds to ensure that the business continues in the event of the death of an owner, partner or key person.
- A business can purchase life insurance and annuity products to provide benefits for its employees.

## HEALTH INSURANCE

Most people cannot afford to pay the full costs of their medical treatment should they become seriously ill, nor can most people afford a loss of income when they are unable to work because of a disability. People who are not covered by a government- or employer-sponsored health insurance plan must seek out individual health insurance or face serious financial risk from losses caused by illness or injury.

The two major forms of health insurance are medical expense insurance and disability income insurance. Medical expense insurance provides benefits to pay for the expenses an insured incurs for the treatment of an illness or injury and, in some cases, will provide benefits for medical expenses incurred as preventive treatments. Disability income insurance can offer protection against the risk of income lost because of a disability.

To respond to rising medical expenses, insurers have introduced managed care systems principally to employer groups. Managed care is a method of integrating the financing and delivery of health care within a system that manages the cost, accessibility and quality of care. Managed

care plans differ from the traditional indemnity health insurance plans in a number of ways, including the specific benefits provided, the manner in which an insured obtains medical care services, and the manner in which the health care provider is paid for rendering services.

In a traditional indemnity insurance plan, insureds are free to choose any licensed physician or hospital for their medical needs. By contrast, managed care plans negotiate contracts with selected health care providers, and insureds are referred to that network of providers. The insured may choose any provider who is a part of that network. Using a provider without a referral by a primary care physician, can result in either a reduction in benefits or no benefits at all.

## **AVAILABILITY AND PORTABILITY OF HEALTH PLANS**

### **Guaranteed Availability of Small Group Products**

Insurers who serve the small employer market (employers with 50 or less full-time employees) are required to accept every small employer that applies for coverage under any health plan the insurer actively markets in the small group market. They must also accept every individual and their dependents in the group who applies when they first become eligible for coverage under that plan. An insurer may refuse to issue coverage only if the insurer has a financial incapacity, an inadequate network, the applicant is not in the insurer's service area or if the group fails to meet the minimum participation and/or contribution requirements of the insurer.

Guaranteed availability of all small group coverage is not extended to self-employed individuals under North Carolina insurance law even though such persons are considered small employers. However, such people are guaranteed access to two standardized health plans from any insurer who is serving the small employer market.

Guaranteed availability of coverage is not extended to large employer groups (groups with more than 50 full time employees).

### **Guaranteed Renewability of Group Coverages**

Insurers are required to guarantee the renewability of the group health plan to the employer except for the following reasons:

- The policyholder fails to pay premiums.
- The policyholder committed fraud or made a material misrepresentation.



- The policyholder fails to comply with the participation and/or contribution requirements of the insurer.
- The insurer is terminating the plan type or is terminating all coverage in the market place because of a decision to cease offering coverage in the state. If an insurer ceases offering a type of plan, the insurer must give the insureds a 90-day notice of the termination and offer the policyholder replacement coverage from all plans the insurer currently markets in that market. If an insurer is leaving the market in this State, the insurer must give the insureds a 180-day notice of the termination.
- The policyholder moves outside the insurer's service area and no insured lives, works, or resides in the service area.
- The employer's membership in a bona-fide association ceases.

A bona-fide association is an association that has been actively in existence for at least five years, has been formed and maintained for purposes other than of obtaining insurance, does not condition membership in the association on any health status-related factor relating to an individual, makes coverage offered through the association available to all members regardless of any health status-related factors, and does not make health insurance coverage offered through the association available other than in connection with a member of the association.

### **Limitations on Pre-Existing Condition Exclusions**

A preexisting condition is generally defined as an injury that occurred or sickness that was present before the policy was issued and that was not disclosed on the application. If you receive treatment or medical advice for an injury or sickness before the policy is issued, you should list all treatments and medications on your application, if health questions are asked.

An insurer may apply a preexisting condition exclusion with respect to an individual who is covered by an employer-based group health plan only if:

- The exclusion relates to a condition, whether physical or mental, regardless of the cause of the condition, for which medical advice, diagnosis, care or treatment was recommended or received within the six-month period ending on the enrollment date.



- The exclusion extends for a period of not more than 12 months, or 18 months in the case of a late enrollee.
- The period of any preexisting condition exclusion is reduced by the aggregate of the periods of creditable coverage, if any, applicable to an individual who is covered by an employer-based group health plan as of the enrollment date.

\* Creditable coverage means that you were covered under another major medical or similar qualified health benefit plan. If you were continuously covered by this plan, and have no more than a 63-day break in coverage, you qualify for the preexisting credit.

An insurer may not apply a pre-existing condition exclusion in the following cases:

- In the case of an individual who, as of the last day of the 30-day period beginning with the individual's date of birth, is covered under creditable coverage.
- In the case of a child who is adopted or placed for adoption before attaining 18 years of age and who, as of the last date of the 30-day period beginning on the date of the adoption or placement for adoption, is covered under creditable coverage.

No group health insurer shall impose a pre-existing condition limitation relating to pregnancy as a pre-existing condition.

## **DENTAL INSURANCE**

Dental insurance provides benefits for routine dental examinations, preventive dental work and dental procedures needed to treat tooth decay and diseases of the teeth and jaw. Because early detection and treatment of dental problems can result in significantly lower expenses, most dental policies provide full coverage for routine examinations and preventive work in order to encourage insureds to obtain regular dental checkups.

## **VISION CARE INSURANCE**

Vision care insurance provides benefits for expenses incurred in obtaining eye examinations and corrective lenses. Most policies specify that one routine eye examination will be covered. The maximum amount that will be paid in benefits for eyeglass lenses, frames or contact lenses will be specified in the policy.



## **SPECIFIC DISEASE INSURANCE**

These plans will pay only if the disease named in the policy, such as cancer, is diagnosed. It does not provide basic medical coverage.

## **MEDICARE SUPPLEMENT POLICIES**

These policies usually cover what Medicare covers but also fill in some or all of the Medicare non-payment gaps, including the deductibles and the co-payments.

## **HOSPITAL/MEDICAL EXPENSE INDEMNITY INSURANCE**

This insurance pays a set cash amount while in the hospital or a percentage of medical expenses (for example, 30 a day or 40 percent of doctor bills). It does not provide a full supplement to Medicare.

## **NURSING HOME/LONG TERM CARE INSURANCE**

This insurance pays cash for each day of covered nursing home care. It is very important to know what is and is not covered in such a policy. Most of these insurance policies cover skilled, intermediate and custodial/domiciliary nursing home care and some home health care costs. These policies may have limitations and restrictions so it is important to understand the benefits and definitions in the policy.

## **CREDIT INSURANCE**

Credit insurance is designed to pay off a borrower's loan obligation in the event the borrower dies or becomes disabled. The loan, on which the perceived need for the insurance derives, strongly influences the credit insurance product. The conditions and terms of the loan determine many of the benefit levels of the credit insurance coverage. Credit insurance is offered to borrowers at the place where the loan is extended. The primary producers of credit insurance are lending institutions. These institutions include:

- Banks
- Savings and Loan Associations
- Credit Union
- Finance Companies
- Production Credit Associations



Credit insurance is also offered in conjunction with installment sales contracts where the primary purpose of the business is to sell consumer goods or services. These businesses include:

- Automobile, Mobile Home and Recreational Vehicle Dealers
- Retail Outlets
- Acceptance Corporations

From the insurer's point of view, the producer's primary function is to offer the insurance product to the borrower. There is no state law that requires the borrower to have or purchase credit insurance.

In addition to credit life and disability insurance, there is also credit involuntary unemployment insurance ( U ), credit family leave insurance, credit property insurance on open-end credit and GAP waiver insurance. GAP waiver insurance is coverage typically purchased by an automobile owner who finances a motor vehicle. GAP insurance covers the difference between the fair market value of the vehicle and the balance of the loan when a total loss occurs to the vehicle. It is also possible that a lender financing a motor vehicle could purchase GAP insurance. In either case, payments under the GAP waiver insurance are made directly to the lender, regardless of who the policyholder is. GAP waiver insurance does not cover damage to or destruction of a vehicle. It only covers a debt of the insured borrower in excess of the fair market value of a total loss vehicle. There is no state law that requires a borrower to purchase GAP waiver insurance.



