

Founder Focus: FAQs for Start-Up Success

Insurance Fundamentals for Founders

Insurance plays a key role for businesses in managing risk and reducing potential financial exposure. However, to achieve this it is important to make sure that the correct insurance cover is in place, at an appropriate level, and that the necessary steps are taken to call on the insurance if the insured risk occurs.

What is insurance?

Insurance is a contractual agreement between you (the insured) and an insurer where, in exchange for payment of a 'premium', the insurer accepts some or all of the financial risk of an event occurring.

The insurance cover will be subject to certain conditions. Conditions which are specific to your policy will be contained in the policy schedule. This will include any requirement to pay the first portion of any losses (the excess or deductible), any cap on the insurer's maximum liability (the limit of indemnity), and the period of time for which the insurance runs. Any standard conditions will then be set out in the policy wording. The schedule and wording together form the insurance policy.

What types of insurance cover are available?

The type of insurance cover needed depends on the risk against which you as an insured want protection. It is often possible to get more than one type of insurance cover as part of a single policy offered by an insurer. These are known as combined policies.

Insurance cover can be divided into two types: First Party insurance and Third Party insurance.



First Party insurance covers your own financial loss.

This includes:

- 1 Property Damage Insurance, which covers loss as a result of damage to property you own. There are specialist types of policy available depending on the type of property which is being insured – such as business premises or equipment, manufacturing equipment, and for sites which are under construction;
- 2 Business Interruption Insurance, which covers loss of income to your business – for example, if your business premises need to be closed for an unforeseen reason. This is often obtained as an addition to property damage insurance.



Third Party insurance covers your potential liability to others for damage to their property, injuries to them, or their financial loss. It will usually also cover the legal costs of defending claims made against you. This includes:

- 1 Public Liability Insurance, which covers your potential liability to the general public, including the owners of neighbouring properties and users of your premises;
- 2 Employer's Liability Insurance, which covers your potential liability to your employees;
- 3 Directors' & Officers' Insurance, which covers the directors and officers of a company from claims which arise from decisions and actions taken as part of their role managing the business; and
- 4 Professional Indemnity Insurance, which covers potential liability as a result of negligent performance of professional services.

There are also more specific insurance covers which might apply in particular situations. For example, in the context of a business acquisition, Warranty & Indemnity Insurance covers financial loss as a result of breach by the seller of warranties and indemnities offered to the buyer as part of the deal.

In placing any type of cover, it is important to make sure that it covers the risk against which you are looking for protection. This includes confirming that the right entities are insured by a policy, that any limitations or restrictions on cover are appropriate to your situation, and that you fully understand any conditions which apply to the insurance policy and that you comply with them.

How do I know what insurance cover I need?

If in doubt, you should ask an insurance broker. An insurance broker is a regulated professional who advises on insurance. A broker acts as your agent in negotiations with insurers. Their role is to represent your interests as the insured party. They have a detailed understanding of the insurance market and can provide advice on the types of insurance cover which your business might need. They will also provide advice on what information should be disclosed to insurers when seeking insurance cover, as there is an obligation on those looking for cover to make a 'fair presentation' of the risk they wish to insure. Brokers will also provide advice on the terms of the insurance policy and any conditions which apply and with which you will need to comply in order for the insurance to be valid.

What do I do if a claim happens?

The insurance policy will set out the steps which you need to take to make a claim against the policy. This can include needing to notify insurers of the risk event or claim within a certain period of time, or providing certain information to support your claim. Guidance should be sought from your broker on when and how to make a claim against the policy.

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Any questions? Get in touch with our team



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