

Small Business Insights

Factors that Affect Small Businesses' Insurance Costs



Provided by: Winters-Oliver Insurance Agency

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Regardless of industry, small businesses encounter a variety of risks in their everyday operations. These exposures can lead to significant financial losses, making it crucial to secure tailored insurance policies. However, there is no one-size-fits-all solution for all organizations; risk profiles vary widely, and several factors affect insurance costs. Understanding these influences is essential for small business owners to make informed decisions when building their insurance portfolios. This article outlines seven key factors, offering valuable insights into how insurance costs are determined.

1. Type of Business and Industry

A business's type and its industry can affect its insurance rates. For example, high-risk industries like construction or manufacturing tend to have higher premiums, while low-risk sectors like accounting or consulting will have lower premiums.

Small business owners need to be aware of the many factors that impact insurance costs so they can find the coverage they need at a price that fits their budget.



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2. Business Location

Where a business is located impacts its insurance rates due to region-specific risk risks, such as natural disasters and crime. Additionally, state and local regulations may require specific insurance coverage, ultimately influencing insurance costs.

3. Coverage Types

Various types of insurance are needed for different businesses based on their specific risks. While most require common coverage types, such as general liability insurance and commercial property insurance, others may need specialized policies due to the nature of their business. For instance, a business with goods in transit may need inland marine insurance, whereas others may not. These different coverage needs impact overall insurance costs.

4. Policy Limits and Deductibles

Limits are the maximum amount an insurer will pay for a claim, and deductibles are the amount an insured business is responsible for paying before the insurance company pays the claim. Both limits and deductibles affect costs. Higher limits increase coverage but raise premiums, while higher deductibles lower premiums but increase the business's out-of-pocket costs in the event of a claim.

5. Business Size

Insurers calculate premiums using metrics such as employee count, payroll, revenue and assets. Generally, larger businesses will be more expensive to insure because they have more exposures that can lead to claims (e.g., more employees that can be injured, more property that can be damaged and higher losses during business interruptions).

6. Claims History

A business with a history of claims is perceived as riskier, often resulting in higher premiums, and can even affect a business's eligibility for specific policies. Conversely, businesses with fewer claims and good risk management practices can benefit from lower insurance costs.

7. Experience and Track Record

A small business owner's experience can impact insurance confidence and premium pricing. Typically, an insurer will view a business with longevity as an indication that the business is inclined to operate more safely, creating fewer claims.

Small business owners should evaluate their insurance needs carefully, manage risk proactively and consult with a knowledgeable insurance agent for the best coverage at an affordable rate. Contact us for more information.

