

# Safeguarding small retailers

A simple guide to navigating your business insurance

By Gloria Cilliers

In the dynamic world of small retail businesses, understanding and navigating the complexities of insurance can be daunting.

While you're not legally mandated to have business insurance in Canada – except for commercial vehicles – it is often a requirement of lease agreements, explains Paul Santi, Partner & Chief Revenue Officer at Pickering, ON-based The Insurance Market, a member of the Canadian Broker Network.

Your business insurance policy serves as a critical financial safety net – and having the right kind of coverage is especially essential in a time when most Canadian small businesses are facing a challenging post-pandemic macroeconomic environment, with high inflation and interest rates adding pressure on bottom lines.

“For small retailers, understanding the diverse range of insurance types, determining adequate coverage, and being aware of the benefits and consequences of insurance decisions are key to fortifying your business against a multitude of risks,” Santi says.



## Types of insurance for your retail business:

Running a shop comes with risks, but the right insurance has got your back. Business insurance policies come in many forms, each addressing different aspects of a retailer's potential risk. Here's a simple breakdown of the types of insurance that can keep your business safe:

- **Oops Coverage (General Liability Insurance/CGL):** This is like an umbrella on a rainy day for accidents at your shop that could hurt someone or damage their stuff. It also covers you if someone sues you due to a problem with something you sold.
- **Advice Shield (Professional Liability Insurance/E&O):** If you give advice or services, this guards you from any claims that you've made an error that caused your customers to lose money.
- **Product Protector (Product Liability Insurance):** This one's a must-have if you sell, make or distribute products. It's there for you if a product goes wrong and causes harm.
- **Shop Safeguard (Commercial Property Insurance):** This keeps your store and everything in it protected from damage, like from a fire or theft.
- **Business Ride Cover (Commercial Vehicle Insurance):** If you've got cars or trucks for your business, this helps pay for damages and keeps you right with the law.
- **Cyber Defender (Cyber Liability Insurance):** With this, you're better prepared against hackers and data leaks that could cost you a pretty penny. A must-have if you have an online store, but also recommended for any small retailer that uses an internet connection to do business.
- **Boss Buffer (Directors' and Officers' Liability Insurance):** This one's for the decision-makers – keeping their personal finances safe if their business choices land them in hot water.
- **Operation Pause Plan (Business Interruption Insurance):** If something big goes wrong and your shop has to close for a bit, this helps cover the lost cash flow – provided that the

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mishap is an insured peril in your policy.

- **Key Person Protection (Life Insurance for Business):** If someone important to your business passes away, this helps keep things stable financially.
- **Staff Safety Net (Workers' Compensation Insurance):** Required by law, this takes care of medical bills and lost wages if an employee gets hurt on the job.

## How much insurance is enough?

Each retail business is unique, and therefore you need an insurance policy that fits your business' specific exposures and risk to ensure you are adequately protected and there are no coverage gaps, Santi says. But how do you know how much you actually need?

Determining the right amount of insurance depends on various factors:

- **Business size and location:** Larger stores or those in high-risk areas (like flood zones) typically require more coverage.
- **Type of products sold:** High-value or risky products (like electronics or chemicals) necessitate higher coverage due to greater risk.
- **Revenue and assets:** Higher revenue and more assets generally mean more insurance to cover potential losses.

"A common mistake is underinsuring to save on premiums. However, this short-term saving can lead to significant financial hardship when the unforeseen happens," says Santi.

A recent Zensurance survey shows that while 87% of Canadian small businesses are insured, almost half of those who don't have insurance think they don't need it, while 30% think their personal insurance will cover their business and 19% find it too costly or haven't considered getting a policy.

Consulting with an insurance broker who understands the retail sector can provide tailored advice for your specific needs.

## Dispelling myths and managing risk

Santi highlights some common insurance misconceptions among small retailers.

"Your lease is your starting point for your basic insurance requirements, and then you'll need to review your exposures to determine

what coverage best suits your business' needs," he says.

Understanding your business' liability is often overlooked when it comes to insurance cover, he adds. "If you're using a North American distributor or manufacturer to import products into Canada, the liability lies with them if that product causes any of your clients harm. However, if you import a product directly from overseas and that product causes harm, the liability lies with you, not the manufacturer," he warns, suggesting retailers share product lists with their insurers to ensure proper coverage.

Santi also stresses the importance of policies that provide peak season adjustments. "Confirm that your policy affords an extra 25% coverage during peak seasons like the holidays, when most retailers have increased inventory," he advises.

Due to high inflation, Santi also advises retail businesses to reassess their policy values to align with current replacement costs – not only for inventory but also for tenants improvements. "To avoid being underinsured, you may need about 25-30% increase in coverage to match the inflation rates we're seeing today."

For online retailers, Santi underscores the necessity of a standalone cyber insurance policy, separate from the business policy, to protect web stores effectively.

## Smart insurance choices

Why good Insurance is great for business:

- ✓ **Financial safety:** Just like a helmet in a game, the right insurance keeps your money safe when things unexpectedly go wrong.
- ✓ **Tax perks:** The money you spend on insurance can often be deducted from your taxes.
- ✓ **Trust booster:** Customers and partners see you as reliable and serious about your business when they know you're well-covered.

Why you shouldn't skimp on insurance:

- ✗ **Money pitfalls:** If you're not covered enough and trouble hits, the costs could dig a deep hole in your wallet or even bankrupt your business.
- ✗ **Reputation on the line:** A single mistake can spread like wildfire on social media,

and if people think you cut corners on insurance, they might trust you less.

- ✗ **Legal tangles:** Not having required insurance can land you in a world of legal headaches and fines.

## Best practices for small retailers

- **Regularly review and update your insurance policy:** As your business grows, your insurance should grow with it. "Work with a broker who can guide you through the complexity of your exposures, risk and insurance requirements," Santi says.
- **Know what you're covered for – and what not:** It's important to know exactly what your insurance protects. "For instance, if you're selling refrigerated goods, ensure your policy includes consequential loss coverage," Santi says.
- **Shop smart:** Find the best coverage without just looking at the price tag. "Insurance isn't where you should cut corners – this is what protects your dream of running a successful business," Santi says.
- **Prevent to save:** By implementing proper risk management strategies, like regular maintenance on equipment, you can prevent accidents and avoid claims against you in the first place. "Understand the specific risks associated with your products and operations and do what you can to mitigate those exposures," Santi advises.
- **Trust your broker:** A good broker doesn't just sell you a policy; they help you understand your shop's unique risks and specific insurance needs. "This is where a broker can really help you understand your business' real exposures and risk, help identify coverage gaps and find a policy that fits," he says. 



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