

Insurance for Food Entrepreneurs

No matter how careful you are to ensure that your work environment and products are safe, accidents do happen. As a business owner, you will be held responsible for any harm that comes to your employees, visitors who come to your establishment, and consumers who eat your products. Safe food-handling practices must be a top priority for all food entrepreneurs so that no one becomes ill or injured from eating your product. Unsafe practices at any step in the process from farm to table—even after the product leaves your kitchen—can lead to disaster.

Remember, don't wait until you have your first product on the grocery store shelf to purchase an insurance policy. You will need insurance coverage before you start developing products and handing out samples to prospective clients.



Why should you have insurance?

You can be held liable for accidents even if you have done everything reasonable to avoid them. An insurance policy is needed to:

- Protect assets you can't afford to lose in a lawsuit, such as your business property, home, and other personal assets
- Get a bank loan for your food business
- Ensure that wholesale distributors will be willing to carry your product
- Qualify you to use shared-use kitchens, pilot plants, or other rented facilities

What kind of coverage do you need?

Since not all businesses are alike, this is not a simple question to answer. Many business owners naively believe that they don't need any insurance. Don't assume that your homeowner's coverage will take care of insuring your home-based food business. Talk to your current insurance agent to see if a rider can be added to your policy to cover your food venture. In many cases, this will not be possible, so be prepared to buy a separate policy as a necessary cost of doing business.

Take the following steps to learn what kind of insurance you need:

- **Contact** your insurance agent or broker.
- **Review** the coverage you already have.
- **Determine** what additional insurance is needed, then seek an economical way to purchase what you need.

Your agent will assist you in reviewing your present coverage to identify any gaps (areas of risk) and will recommend the amount of additional insurance you require. Most businesses need fire, automobile, liability, and workers' compensation insurance.

Types of Insurance

Insurance is generally available in two categories: (1) property and liability and (2) life and health. Life and health insurance includes employment benefits that you arrange for yourself and any employees you might have. Initially, you will need to concentrate on the property and liability coverage for your business. A property policy provides insurance on your building and tangible assets; liability protects you against claims of injury from your customers. Depending on your coverage option, when you file a property insurance claim, you will receive cash for the actual value of the loss or the funds needed to repair or replace the insured item(s). When liability insurance applies, payment will be made to cover court costs, legal fees, and interest on judgments, in addition to the actual amounts awarded to the plaintiff by the court, up to the dollar limits of the policy.

Insurance You Need to Consider

- **Liability** insurance protects your business if someone suffers bodily injury while at your place of business and sues you for damages. The cost of liability insurance is generally related to the risk of your industry; therefore, a restaurant where customers visit often will have higher risk than a bakery that sells their products to retailers and has few onsite customers.

- **Product liability** insurance protects you against claims of injury due to defects in your product. This insurance provides coverage if your product is part of a foodborne illness outbreak, has faulty packaging, or contains foreign objects that result in a broken tooth or other injury—making it a necessity for all food production enterprises. This insurance should be purchased before you introduce the product to the market, even if you are only giving away free samples.
- **Business property** insurance protects company equipment or assets against theft or damage due to fire, flood, vandalism, or other unfortunate incidents. Additional coverage may be needed related to windstorms, hail, smoke, and explosion. The coverage is written related to the actual cost of replacing buildings and equipment; the premiums you will pay are based on the insurable value.
- **Commercial auto** insurance is needed if you are responsible for picking up supplies or transporting finished products. Commercial auto insurance is quite similar to what you may already have on personal cars and trucks. Most commercial auto policies include property coverage for the vehicle, liability coverage for damage to other people and their vehicles, and the cost of injuries to the driver and passenger(s) of your vehicle. If you

use more than five vehicles for your business, you will want to explore fleet insurance to cover them all with one policy.

- **Workers' compensation** insurance covers employees who are injured on the job. It is required by law and must cover medical and rehabilitation costs and lost wages for employees hurt on the job. There are two components of this type of insurance; the first covers medical bills and lost wages for the injured employee, and the second covers you, as the business owner, against lawsuits by the spouse or children of a worker who was permanently disabled or killed. Annual cost is based on wages paid for each applicable employee job classification based on the tasks your employees perform, as determined by the Pennsylvania Department of Labor and Industry.

Choosing an Insurance Agent

Choosing an insurance agent is as important as choosing an insurance policy. As a member of your "business support team," your agent should be someone with whom you are comfortable discussing your concerns and needs. Many people start with the agent who handles their personal insurance, such as personal property, vehicle, or life insurance. This may or may not be the right choice for you. Make sure your business insurance agent has a thorough knowledge of the insurance industry, as well as real-

istic experience with food businesses, so that the plan you select provides adequate and appropriate coverage at a reasonable price. Have your agent explain all aspects of the policy to you in detail so you know exactly what is or is not covered. This will help eliminate any future surprises. If your current agent does not handle business insurance, he or she should be able to refer you to another reputable agent or agency that will meet your needs. Your banker or accountant, trade organizations, and other businesses may also be helpful resources for finding the right insurance agent.

For more information, contact the Penn State Extension office in your county, or visit extension.psu.edu/food/safety/entrepreneurs.

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*"Talk to others in business,
from small producers to very
large producers."
—Pa. food business owner*