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What’s next starts here.

If you’re creating a company from scratch, you’re probably spending most of your energy finding customers, building your team, refining your idea and pivoting accordingly. Probably the last thing on your mind is insurance. But covering your business risks is a smart move, says **Augusto Russell, CIC**. We sat down with the Farmington resident, who recently was named the 2016 Professional Agent of the Year by the National Association of Professional Insurance Agents (its highest honor), to find out why insuring your startup is so important—and when it’s prudent to do so.

Everything Entrepreneurs Need to Know About Insurance

Connecticut Innovations: Do startups need insurance?

Augusto Russell: Not always. A new business doesn’t need insurance immediately if it just consists of two buddies working together on an idea. But if you and your buddy intend to make money from the idea, you may need insurance to cover your business risks.

CI: At what point should entrepreneurs secure coverage?

AR: If you have an early-stage business, meaning your idea or product is still being developed, you probably don’t need insurance until you hire someone or you take money from friends, family or investors. Once you have at least one employee, you need workers’ compensation insurance, which all states require, along with the following:

1. **Business Owner’s Policy.** This type of insurance covers your property, such as your office contents, and provides general liability (for “slip, trip and fall” accidents). It also provides many other protections against exposures that you’ll need to review and identify with your insurance agent—preferably one who is familiar with the types of insurance that startups require.

2. **IP Insurance.** If you're planning to patent your idea, you'll spend a great deal of time and money on the patent, and you'll want to make sure you're protected in case you're attacked by a patent troll who holds you for ransom.

   Many business owners aren't aware that there are programs designed just for entrepreneurs. For example, my firm offers a program that protects early-stage companies' IP portfolios with a starter package of up to three patents and $1 million in legal defense or infringement defense costs. The coverage is broader and less expensive than paying a lawyer for a patentability option, and it's backed by an AM Best A-rated carrier. What's more, prior to filing your patents, you can get up to three applications reviewed (to see whether your patent infringes on existing patents) for around $3,500, and then receive a $1 million policy for about the same amount once the patent is issued.

3. **Cyber Liability Insurance.** While there has been a great deal of news about cyber breaches of large companies and government agencies, small companies need to think about cybersecurity, too. Specifically, you need to ask yourself three questions: (1) Where is your company storing its customers' personal information, such as name, address, credit card, and Social Security data? (I recommend you reduce your risk by using PayPal or merchant accounts with a history of protecting data.) (2) How is your company protecting its crown jewels (e.g., source codes, proprietary knowledge and IP)? And (3), what are you doing to prevent hijacked services and denial-of-service attacks?

   Cyber liability insurance can help you offset costs associated with these issues. The cost of the coverage is quite reasonable and can offer up to $1 million in funds to help you reconstruct your code, pay for audits to flag the weaknesses in your system, and help you rebuild the guts of your platform if they become corrupted. It also protects you on the off chance that a disgruntled employee steals your code. (But it does not protect you from a former employee copying your plan, process or proprietary processes.)

When it comes to insuring your startup, your best bet is to make sure your agent and insurer understand the unique risks of your business, because not every insurance agent or company is trained to work with startups. Once they understand where you're exposed, you can get the coverage you need for the best price. For example, one of the startups I work with was classified as a medical device company and was told it needed the requisite insurance. But after working with the insurer, I was able to help them understand that while the startup will one day be a medical device company, it's not there yet. As a result, I was able to save the company close to 75 percent on basic insurance costs.

After you talk with your agent, he or she may recommend auto, crime, directors and officers liability, and umbrella insurance, depending on your situation.

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CI: What if I'm in an accelerator? Am I covered?
AR: If you work in an incubator or accelerator, their insurance may cover you while you are on their premises. Or, they may require you to carry insurance. Be sure to check with the program's administrators before purchasing any type of insurance policy to see what you actually need.

If you receive venture capital funding, your investor may have its own guidelines. Connecticut Innovations, for example, requires the startups it funds to carry key person, directors and officers (D&O) and general liability insurance.

CI: Any other advice for our startups?
AR: Crowdfunding is becoming more and more popular. If you use crowdfunding to finance your business, you probably don't need insurance other than a business owner's policy (BOP) insurance until you start delivering on your promised item or goods.

However, if you are going to sell a product, you most likely need products liability coverage in addition to a BOP. Products liability insurance protects your company and its principals from lawsuits if the promised item doesn't do what it's supposed to do, or, in an even worse situation, if it causes a consumer harm. This type of insurance can be complicated and expensive, but it is much less costly than losing your assets because you didn't have insurance to fund the claims.

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