

■ FOR FRANCHISORS

Franchisor insurance program guide.

A methodical annual review of every coverage
your brand needs, and how to hold your
insurance supplier accountable.



Franchisee buy-in is easier when the coverage expectations are carefully crafted.

RIKOR.

protectmyfranchise.com
Rikor Insurance Consultancy

■ INTRODUCTION

Protect the brand, **protect every unit.**

This is an annual review process for franchisors, directors of operations, franchise platforms, and compliance officers. Follow it yourself, or have a Rikor consultant run it with you every year.

01 Coverages you should have

General liability

Protects the brand from financial loss due to claims of bodily injury, property damage, and personal injury on premises or from business operations.

A fast-food franchisor was named in a lawsuit after a franchisee's ad was found to contain misleading health claims. General liability covered the defense costs and settlement because the claim involved advertising injury.

THINGS TO REVIEW

- Policy limits
- Policy exclusions
- Aggregate vs. occurrence limits
- Defense costs in or outside limits
- Contractual liability included
- Additional insureds
- Territorial coverage
- Deductibles or retention
- Occurrence vs. claims made

Workers compensation

Covers medical treatment and partial wage replacement for employees injured on the job, and protects the franchisor from related lawsuits.

An employee who trained franchisees across states was injured demonstrating equipment. Coverage triggered because the injury occurred while performing work duties, even out of state.

Errors and omissions

Protects franchisors against claims of negligence, mistakes, or inadequate advice, training, or FDD content that causes a franchisee financial loss. About 75% of franchisor claims sit in the gray area between E&O and D&O.

A flawed marketing strategy in a franchisor's operations manual led a franchisee to a failed campaign and financial loss. The franchisee sued, and E&O covered the claim.

THINGS TO REVIEW

- Scope of operations covered
- Coverage limits
- Deductible or retention
- Policy exclusions
- Retroactive date
- Defense costs in or outside limits
- Hammer clause
- Defense representation
- Extended reporting period

Commercial auto

Protects franchisors when vehicles are used for business, whether company owned, rented, or personally owned by employees.

THINGS TO REVIEW

- Policy limits
- Combined single limit or split limits
- Driver record qualifications
- Auto symbols
- Hired auto liability and physical damage
- Non-owned auto liability and physical damage
- Are all vehicles listed
- Are all drivers included

Directors and officers

Protects the personal assets of directors, officers, and executives if sued for decisions made in their roles that cause financial loss.

A board's market expansion decision failed, and franchisees sued the directors for inadequate due diligence. D&O covered the claim.

THINGS TO REVIEW

- Coverage limits
- Deductible or retention
- Policy exclusions
- Side A, B, and C structure
- Defense representation
- Extended reporting period
- Retroactive date
- Coverage territory
- Severability clause
- Hammer clause
- International coverage if operating globally

Vicarious liability

Protects franchisors from legal responsibility for the actions of franchisees, employees, or agents who cause harm to others, often tied to the operations manual.

A franchisee followed the operations manual's customer service procedure and a customer was injured. The customer sued both parties, and vicarious liability responded to the franchisor's exposure.

THINGS TO REVIEW

- Scope of operations covered
- Coverage limits
- Deductible or retention
- Policy exclusions
- Retroactive date
- Defense costs in or outside limits
- Coverage territory
- Trigger events
- Subrogation rights

02 Other coverages to consider

Employment practices liability (EPLI)

Covers wrongful termination, discrimination, harassment, and retaliation claims from current and former employees, and job applicants.

THINGS TO REVIEW

- Coverage for wrongful termination, discrimination, harassment, retaliation
- Policy territory and limits
- Sub-limits
- Defense costs in or outside limits
- Wage and hour coverage limit
- Third-party coverage
- Extended reporting period

Cyber liability

Covers the financial and legal fallout of data breaches, cyberattacks, and social engineering fraud against the brand or its franchisee network.

THINGS TO REVIEW

- Data breach, ransomware, and cyber-crime coverage
- Social engineering and phishing
- Third-party coverage
- Business interruption
- Deductible or retention
- Policy exclusions
- Retroactive date

Commercial crime

Covers losses from employee theft, fraud, forgery, or robbery, protecting the brand's assets from internal and external threats.

THINGS TO REVIEW

- Employee theft, forgery, fraud, burglary, robbery
- Social engineering
- Electronic funds transfer
- Discovery vs. loss-sustained form
- Cyber-crime
- Third-party coverage

Fiduciary liability

Covers claims tied to mismanaging employee benefit plans, such as retirement and health benefits.

THINGS TO REVIEW

- Mismanagement of benefit plans
- Breach of fiduciary duty
- Coverage limits
- Prior-acts coverage
- ERISA compliance
- Defense costs in or outside limits

Employee benefits liability

Covers errors or omissions in the day-to-day administration of benefit plans, distinct from fiduciary liability's plan-management focus.

THINGS TO REVIEW

- Administrative errors or omissions
- Coverage for current and past employees
- Coverage limits
- Defense costs in or outside limits

Kidnap and ransom

Protects franchisors with international operations against kidnapping, extortion, and related executive travel risk.

THINGS TO REVIEW

- Kidnapping, extortion, wrongful detention, hijacking
- Coverage for executives, employees, and family
- Geographical limitations
- Ransom payment process
- Confidentiality clause

03 What your program should look like

The franchisee purchasing experience

Is the application simple? Is there a discovery call, an insurance presentation call, a 6 month review, and a 90 day renewal process for every franchisee?

The monitoring system

Covers new franchisee onboarding and existing franchisee renewal, confirms every unit meets or exceeds required coverages, and runs through an accessible portal with dashboard and compliance data.

Franchisee education

Do you offer an LMS? Are there required insurance learning tracks, tailored to your operation, that speak directly to your required coverages?

04 Vetting an insurance supplier

Ask before you sign

A qualified supplier should open by asking about your FDD, FA, and Operations Manual, since franchisees are contractually obligated to the coverages listed there. Push past generic reassurance on these questions:

THINGS TO REVIEW

- What is your recommended first step working together
- How do you ensure every franchisee meets or exceeds required coverage
- How will you monitor coverage as we scale
- How will you alert me to an expired policy
- What does new franchisee onboarding look like
- What is your service level agreement
- Where are you licensed
- What types of insurance have you historically focused on
- Which carriers have you identified for our brand

05 Set requirements and cost expectations

Establish the right requirements

Work with a specialist who understands franchising, review your FDD, Operations Manual, and FA for consistency, then update Item 8 and make sure every insurance clause across those documents matches.

Set cost expectations early

Insurance can run 1% to 3% of revenue, sometimes more. Check Items 7 and 19 in the FDD, work with your supplier to set an accurate premium range, and be upfront with candidates before onboarding so there are no surprises.

■ LET'S CONNECT

Run this **annually.**

01 Review annually

Insurance requirements drift as the brand grows. Reexamine this guide every year.

02 Loop in the right people

Directors of operations, compliance, and your insurance supplier all have a stake in the review.

03 Update the FDD and FA together

Keep Item 8 and every insurance clause across your documents identical.

04 Talk to Rikor

An expert franchise insurance consultant can run this process for you annually, or alongside you.

Schedule a call

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New customers

hello@rikor.io

Current customers

support@rikor.io

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