

■ FOR FRANCHISEES

The business insurance buyers guide.

What to look for, what to question, and what to avoid before you bind coverage. Written for franchise owners, in plain language.



Two quotes at the same price rarely cover the same things.

■ BEFORE YOU BUY

Buy coverage, not a guess.

This guide walks through the full process: who to work with, what every coverage actually does, how to read a quote past the price, what your franchisor requires, and what happens when you file a claim, so you can sign with confidence instead of hoping you got it right.

01 Before you buy

When should I start the insurance process?

Start as soon as you decide to become a franchisee. Starting early gives you time to understand your franchisor's insurance requirements and get coverage in place well before you open your doors.

If you're self-funded, you can move at your own pace, but it's still smart to start early and avoid delays. If you're using an SBA loan, be ready to provide proof of insurance as part of the loan approval process. Lenders often require specific coverage to protect their investment.

Who should I work with?

Your insurance needs will change as your business grows. Work with a provider who understands the franchise industry and can adapt to your changing requirements over time. Choose a partner who acts as an advisor, not just a policy seller, and who helps you make the right calls as your needs get more complex.

Ten questions to ask before you pick a supplier

Here's what to ask any insurance supplier before you commit:

THINGS TO REVIEW

- What does your process look like, from discovery to quoting to presentation to binding
- What insurance should I have, and are they focused on protecting you or winning your business on price
- Do they know your franchisor's requirements, to keep you compliant
- What type of insurance do they typically handle. Use caution with agents who mostly write home and auto
- What carriers do they offer, and what's their network
- What information do they need from you. Disclose everything, in full, don't hide anything
- What service should you expect: certificate turnaround time, quote time, callback SLA, change request time
- How do they make sure your coverage stays right as you grow. Do they check in every six months
- How do they manage changes like new vehicles or locations, and can you see that information online
- What does renewal look like, and does it start at least 90 days out

02 How insurance companies are rated

Why the rating matters

When evaluating an insurer, it's critical to understand their financial strength and reliability. This tells you whether they can meet their obligations, especially when a significant claim comes in.

What is A.M. Best?

A.M. Best is a global credit rating agency focused on the insurance industry. It evaluates the financial strength of insurance companies and issues ratings that show their ability to meet policyholder obligations. A.M. Best ratings are the standard benchmark for assessing an insurer's financial health.

What do the roman numerals mean?

Roman numerals indicate the insurer's financial size category, reflecting their policyholder surplus (assets minus liabilities). Categories range from I (smallest) to XV (largest). A carrier rated VII has a policyholder surplus between \$50 million and \$100 million.

What do the letter grades mean?

Letter grades show the insurer's financial strength and creditworthiness, ranging from A++ (superior) to D (poor). Ratings of A- and above are considered strong, meaning the insurer has a solid ability to meet its ongoing obligations.

What's the optimal carrier rating?

Choose a carrier with at least an A- VII rating from A.M. Best. That combination balances a wide field of stable carriers against real financial reliability. Carriers rated A-, A, A+, or A++ offer the strongest assurance for long-term coverage and claims handling.

03 Why carrier verification matters

Different carriers, different specialties

Confirming the carrier behind each insurance product matters because different products, general liability, property, workers' comp, may be underwritten by different carriers. Different carriers specialize in different lines. One might be renowned for property, another for liability. Confirming the carrier for each product means you're getting specialized coverage from providers with real expertise in that area, which tends to mean better terms, better claims handling, and better service overall.

Financial stability protects you when it counts

A financially stable carrier is more likely to honor claims, especially after a large-scale disaster or major loss. An unstable carrier may not have the reserves to pay out, which leaves your business exposed right when you need the coverage most.

Coordinated carriers close gaps instead of opening them

Using multiple carriers across different products can create coverage gaps if the policies aren't coordinated. Understanding each carrier's role helps you confirm there's no overlap and nothing falls through the cracks, which matters most for complex businesses with varied insurance needs.

Experience and claims handling

Carriers vary in their experience with franchising and with specific risk types like cyber liability or employment practices. Verifying carrier experience means you're working with a company that actually understands your industry's risks. It's worth checking their claims handling track record too: some carriers process claims faster and more fairly than others, and that difference shows up exactly when you're already stressed.

Regulatory compliance and long-term relationships

Different states regulate insurance carriers differently. Verifying that your carrier is licensed and compliant in every state you operate in keeps your policy valid and enforceable, which matters most if you operate in multiple states or have franchisor-specific requirements to meet.

Building a long-term relationship with your carrier also pays off over time: tailored advice, customized options, and better rates as the relationship matures.

04 Quotes don't last forever

How long is a quote valid?

Most insurance quotes are only valid for 30 days. The premium and terms offered are guaranteed for that window. After 30 days, the insurer may need to reassess, and rates can change based on underwriting criteria, market conditions, or your risk profile.

What happens if a quote expires?

An expired quote may no longer reflect current rates or terms. Decide before the quote expires if you want to lock in those terms, or you risk a higher premium or different coverage when you go back to bind.

Why the effective date matters

Make sure the policy's effective date lines up with your actual opening date. If your opening moves up, your coverage needs to start on the new date. If it's delayed, adjust the effective date so you're not paying for coverage before you need it.

05 The coverages to review line by line

General liability

General liability covers third-party bodily injury, property damage, and legal fees. It's essential protection against the most common business risks: a customer hurt on your premises, or damage caused by your products or services.

Products liability

Products liability protects against claims that your product caused harm or injury. This matters most if your business manufactures, distributes, or sells a physical product.

Completed operations liability

Completed operations liability covers damage that shows up after a project is finished. This is critical for any business doing services or construction work, since it protects you against claims tied to work you already completed and left behind.

Property coverage, broken into its parts

Property coverage isn't one thing, it's four:

THINGS TO REVIEW

- Building coverage: the physical structure against fire, theft, and natural disasters
- Contents coverage: equipment, inventory, and furniture inside the space
- Tenant improvements: upgrades to a leased space that the landlord's policy won't cover
- Business interruption: lost income and operating expenses if a covered event shuts you down

06 Workers' compensation, the real questions

Should owners and officers be included?

If owners or officers are included in the workers' comp policy, they're covered for work-related injuries and illnesses just like any employee, meaning your medical expenses and lost wages are covered if you get hurt on the job. If they're excluded, they're not covered under the policy, an option some owners choose if they carry separate health insurance or simply prefer not to be included.

Workers' comp versus personal health insurance

Workers' comp covers medical expenses and lost wages for work injuries regardless of fault, and may include rehab costs and death benefits for dependents. It typically carries no deductible and no co-pay, but only covers work-related incidents, and lost-wage benefits can be capped by state.

Personal health insurance covers a much broader range of conditions and treatments, not limited to work injuries, but comes with deductibles, co-pays, and out-of-pocket maximums, and generally excludes work-related injuries entirely.

“I don't pay myself, what do I include?”

Each state sets its own rules for calculating workers' comp premiums for owners and officers, including minimum and maximum payroll amounts regardless of actual earnings. Some states set a baseline minimum payroll to ensure a floor premium, while others cap the maximum payroll considered, which can help high-earning owners limit their premium cost. Check your state's specific rules.

Should subcontractors be included?

Subcontractors get pulled into your policy, and billed to your premium, if they don't carry their own coverage or haven't provided proof of it. Get a certificate of insurance from every subcontractor before they start work, and keep it current. Workers' comp policies typically include an annual audit, and if you can't produce proof of a subcontractor's coverage at audit time, you'll be charged the additional premium for covering them yourself.

07 What commercial auto insurance actually covers

Coverage for business vehicles

Commercial auto covers vehicles used in your operations, cars, trucks, vans, specialty vehicles, protecting your business from financial loss due to vehicle-related incidents. Every vehicle used for business needs to be listed on the policy. Leaving one off can mean a denied claim if something happens.

Comprehensive and collision

Comprehensive coverage handles non-collision events: theft, vandalism, natural disasters like floods, hurricanes, and earthquakes, fire, and falling objects. Collision coverage pays for damage from crashes regardless of fault, including hitting other vehicles, objects like fences or trees, and rollovers.

Liability coverage

Bodily injury liability protects your business if one of your vehicles causes injury or death to someone else, covering medical expenses, legal fees, and settlements. Property damage liability pays for damage your vehicle causes to someone else's property, including repair costs and legal expenses if you're sued.

Uninsured and underinsured motorist coverage

This protects your business if your vehicle is hit by a driver with no insurance or not enough insurance to cover the damages, so you're not left with the bill because of someone else's lack of coverage.

Medical payments and personal injury protection (PIP)

Medical payments coverage, or PIP depending on your state, pays medical expenses for you and your passengers after an accident, regardless of fault. This can include hospital bills, surgery, rehab, and sometimes lost wages and funeral expenses.

Coverage built for specific business needs

THINGS TO REVIEW

- Hired and non-owned auto: covers employees using personal vehicles for work, or vehicles you rent, since personal auto policies typically exclude business use
- Loading and unloading coverage: protects goods and covers liability during loading and unloading operations
- Trailer coverage: protects trailers and their contents while in transit, if your business uses them

List every driver, list every vehicle

Verify that every vehicle and every driver, including part-time and occasional ones, is listed on the policy. An unlisted driver or an unlisted vehicle can mean a denied claim after an accident. Update the policy any time your fleet or driver list changes.

A few more things worth checking

THINGS TO REVIEW

- Fleet insurance: covers multiple vehicles under one policy, often cheaper and simpler to manage
- Usage and mileage: heavy usage or high mileage can affect your premium and terms
- Geographic coverage: confirm your policy covers where your vehicles actually operate, especially across state lines

08 Additional coverages worth understanding

Crime insurance

Crime insurance protects against financial losses from theft, fraud, and embezzlement, whether committed by employees, customers, or outsiders. It covers employee theft of cash, inventory, or equipment, and customer shoplifting. It covers fraud, including manipulated financial records, false invoices, payroll fraud, and phishing schemes that trick employees into transferring funds. It covers embezzlement, when someone in a position of trust misappropriates company funds, a risk that hits small businesses especially hard since one trusted employee often controls significant resources. And it covers third-party crime: burglary, robbery, and forgery.

Policies can be tailored with computer fraud coverage, funds transfer fraud coverage, employee dishonesty coverage, and money and securities coverage both on and off premises. Insurance is one layer. Background checks, internal controls, audits, cybersecurity protocols, and employee training on fraud recognition round out real protection.

Cyber liability insurance

Cyber liability covers data breaches and cyberattacks. It pays for the response to a breach, hiring cybersecurity experts, notifying affected parties as required by law, and offering credit monitoring to those impacted. It covers the cost of data recovery: restoring systems, repairing hardware and software, and getting back to normal operations. It covers legal fees, settlements, and regulatory fines tied to a cyber incident. And it can cover business interruption from an attack, plus reputation management to help restore your public image afterward.

Employment practices liability insurance (EPLI)

EPLI protects against claims tied to employment practices: wrongful termination, discrimination based on race, gender, age, religion, disability, or other protected characteristics, and workplace harassment, including sexual harassment. It also covers retaliation claims, breach of employment contract, failure to promote, and other employment-related risks. As workplace regulations get more complex, this coverage matters more, not less.

Professional liability insurance (E&O)

Also called errors and omissions or malpractice insurance, this covers claims from professional errors, omissions, or negligence in the services you provide, including legal fees, settlements, and judgments. If a client claims your advice or service caused them financial loss, this is what responds. Coverage can be tailored to your specific field, whether that's healthcare, legal, consulting, or another professional service.

Pollution liability insurance

Pollution liability covers cleanup costs after a pollution incident, including specialized contractors and hazardous material disposal. It covers third-party claims for property damage, bodily injury, or economic loss tied to the incident. And it can help cover regulatory fines from non-compliance with environmental rules, so a violation doesn't turn into financial ruin on top of the cleanup.

Inland marine insurance

Inland marine insures goods and equipment in transit, by land, air, or water, against physical loss or damage, theft, accidents, and natural disasters. It extends to specialized equipment used across industries, construction gear, medical devices, and other high-value items, and covers items at storage facilities, exhibitions, and other temporary locations that standard property insurance typically excludes.

Trailer insurance

If your business relies on trailers, this covers physical damage from collisions, theft, vandalism, and natural disasters, plus loss or theft of the trailer itself, plus liability if your trailer damages someone else's property or injures someone.

Fiduciary liability insurance

Fiduciary liability protects against claims of mismanaging employee benefit plans, retirement plans, health insurance, and similar benefits. It covers the individuals who manage those plans against claims of mismanagement or breach of fiduciary duty, and it can cover fines and penalties tied to regulatory non-compliance. This matters for any business offering retirement or health benefits, since claims here can get expensive fast.

09 Are your limits and deductibles actually sufficient

Check the fine print, not just the headline number

Make sure coverage limits are sufficient for your business, and check for sublimits or restrictions that quietly cap what looks like full coverage. Verify the deductible for each coverage and understand the tradeoff: a higher deductible lowers your premium but raises what you pay out of pocket when something actually happens.

10 What your franchise agreement requires

Three documents, one standard

Operating a franchise means following the insurance requirements your franchisor sets, and those requirements live in three places: the Franchise Disclosure Document (FDD), the Franchise Agreement (FA), and the Operations Manual. Meeting all three is how you stay compliant and protected.

The FDD

The FDD is the legal document that gives prospective franchisees essential information about the franchisor and the system, including a section on insurance requirements. It sets the minimum coverage every franchisee must carry to protect the brand and the network, and spells out required limits and specific endorsements or clauses. Read it closely and make sure your quote actually aligns with it.

The FA

The Franchise Agreement is the binding contract between franchisor and franchisee, and its insurance terms are non-negotiable. Falling short can mean penalties, termination of the agreement, or legal disputes. Verify your policy covers everything the FA requires, general liability, property, business interruption, workers' comp, and anything else specified, including endorsements like naming the franchisor as an additional insured.

The Operations Manual

The Operations Manual details operational procedures and standards, and often includes its own insurance guidance: risk management practices, claims procedures, required safety measures. Following it keeps you compliant and reduces risk through better loss prevention.

What franchisors commonly add on top of the essentials

THINGS TO REVIEW

- Cyber liability, if you handle sensitive customer data
- Employment practices liability (EPLI)
- Professional liability (E&O), for franchises providing professional services
- Pollution liability, for operations with environmental exposure
- Inland marine, for franchises that transport valuable goods
- Fiduciary liability, for franchises offering retirement or health benefits

When to bring in a professional

Navigating franchise-specific insurance requirements is genuinely complex. Work with insurance professionals who have real franchise experience. They can help you interpret the FDD, FA, and Operations Manual, get competitive quotes from reputable carriers, negotiate terms, and make sure every required endorsement actually makes it into your policy.

11 Premium and payment terms to nail down

The total annual premium

Verify the total annual premium cost fits your budget while still providing the coverage you need. Understand what's driving that number: coverage limits, deductibles, and any endorsements added on.

Financed or carrier-billed

Financed policies work like a loan: you repay the premium in installments plus an Annual Percentage Rate (APR), which raises the overall cost but keeps payments smaller and more manageable. Carrier-billed policies let you pay in full upfront or in installments, typically without added interest, a more cost-effective option if your cash flow allows it.

Payment schedules

THINGS TO REVIEW

- Monthly: easiest on cash flow, but may carry added billing fees
- Quarterly: balances spreading out payments against minimizing fees
- Semi-annual: fewer payments and fees than monthly or quarterly
- Annual: one lump sum, often the cheapest option and sometimes discounted

The down payment and auto-withdrawal

Most policies require an initial down payment to activate coverage. Know that number so you can plan for it. Setting up auto-withdrawal helps you avoid a missed payment turning into a canceled policy, automating the process removes the risk of a lapse.

Late fees and other terms

Understand any late payment fees or penalties. Missed payments add cost, and repeated misses can cancel your policy entirely, leaving you unprotected. Ask about discounts for paying in full or bundling policies, understand your renewal terms, and revisit your premium and payment terms any time your business circumstances change materially.

12 What actually happens when you file a claim

The filing procedure, step by step

THINGS TO REVIEW

- Notify your carrier immediately, by phone, online, or through an app
- Gather documentation and evidence: photos, video, police reports, witness statements
- Complete and submit the claim form accurately and completely
- Cooperate with the adjuster assigned to assess the damage
- Review the settlement offer against what your policy actually promises

Confirm real 24/7 support

Verify your carrier actually offers 24/7 claims support, that you can reach them by phone, email, portal, or app, and ask about their average response time. Emergencies don't wait for business hours, and neither should your carrier.

Why timely support actually matters

Fast claims handling minimizes downtime, so you can repair, replace, and resume operations sooner. It reduces financial strain by getting funds to you without delay. And insurers who handle claims well build the kind of trust that makes the whole relationship worth keeping.

What keeps a claim moving smoothly

THINGS TO REVIEW

- Know your policy: limits, exclusions, and the process, before you need it
- Keep organized records: policy details, payments, correspondence
- Communicate clearly and follow up regularly on your claim's status
- Bring in a broker or legal advisor if a dispute drags on

13 A few more things to look at before you sign

Exclusions and limitations

Exclusions define what your policy won't cover, and they're worth reading before you ever need to file a claim. Standard exclusions often include intentional acts, certain natural disasters unless specifically added back in, wear and tear, and losses tied to illegal activity. Limitations cap what's payable for specific claim types, so review your policy for both, exclusions and limitations, to know exactly where your real exposure sits.

Endorsements

Endorsements modify your base policy to add coverage it wouldn't otherwise include, cyber, professional liability, or a property enhancement, for example. Work with your insurer to find the actual gaps in your coverage and add the endorsements that close them, tailored to your business, not a generic list.

Service level agreements (SLAs)

THINGS TO REVIEW

- Certificate of insurance turnaround time
- Expected response time for emails and callbacks
- How long a coverage change request takes to process

Review your policy mid-year, not just at renewal

A move, an expansion, or a change in operations can outdate your coverage fast. A mid-year review is the moment to catch it: update coverage limits as your asset values grow, add coverage for new risks like added cyber exposure, and evaluate whether your current insurer is actually performing on claims, support, and service. If they're not, it's worth looking elsewhere.

14 Setting clear expectations

What insurance actually costs

Plan for insurance to run 1 to 3 percent of revenue, sometimes more depending on your industry. General liability is typically rated as revenue divided by \$1,000, times a rate. Workers' comp is payroll divided by \$100, times a rate. Knowing the formula helps you plan for the year-end audit instead of getting surprised by it.

Renewals aren't automatic

Most policies require a manual renewal process, sometimes a signature and a down payment. Miss it, and you may be functionally self-insured the moment your policy lapses. Set a standing review: quarterly if you're growing 25 percent a quarter or more, annually at renewal otherwise, and make sure you have a protocol to update your provider any time your business changes mid-year.

■ WHAT'S NEXT

Five moves before **you** sign anything.

01 Review policy ratings and carriers

Verify carrier has an A- VII rating and a strong claims-handling track record.

02 Evaluate coverage and exclusions

Identify gaps in liability, property, and franchise-specific coverage, and address exclusions with endorsements.

03 Verify compliance with franchise requirements

Make sure policies meet FDD, FA, and Operations Manual requirements, including additional insured clauses.

04 Understand premiums and payment terms

Confirm premium details, set up auto-pay, and align payment terms with your cash flow.

05 Get familiar with the claims process

Review the steps for filing a claim, including 24/7 support, evidence, and adjuster interaction.

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