



The SME Guide to Business Insurance

Michael Harrison

Provided with the compliments of

Guardian Insurance Brokers Pty Ltd

AFSL 239120

53 Henley Beach Road
Mile End South SA 5031

Tel (08) 8238 0100

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The Importance of Business Insurance

As a business owner or manager you have a wide range of responsibilities. These include responsibilities to shareholders, employees, creditors, and no less importantly, yourself and your family. One of your main responsibilities is to ensure you mitigate your potential risks, which, in turn, will help guarantee the financial security of everyone who depends on you. The most successful way to do this is with a well thought out, personalised risk management strategy that is based on your specific requirements and underwritten by appropriate insurers.

Why?

Here are just a few reasons that insurance is the best solution.

- A good business insurance program will save you money, as the premiums you pay will only be a fraction of the cost of replacing a major asset. Premiums (which are tax deductible) should be considered an investment in protecting your hard work;
- Appropriate insurance will reduce your liability if something happens to people visiting your premises. This could be as simple as slipping and falling on a wet floor;
- Your business will be protected if something happens to one of your employees that could potentially lead to a lawsuit and a large compensation package;
- Your profits can be protected if a disruption occurs, such as cessation of utilities due to an accident, or a problem at a supplier's factory that delays or stops deliveries.

If you believe "it won't happen to me" then you might find yourself in the unenviable position of having to manage a crisis with no assistance, at least from a financial perspective.

Nearly 400,000 claims have been made in Australia as a result of the Victorian bushfires, the Melbourne and Perth hailstorms, the Christchurch earthquake and the Queensland and Victorian floods. Considering that it only takes a small event to destroy years of work, and it can take many years to recover, the risk is too great to allow yourself to believe that you live in a bubble, separate from the rest of the world.

After a 40-year association with the insurance industry I have never heard anyone complain about the cost of their insurance premium when a major claim occurs.

There's only one rule you should remember and that is: if it can happen, it probably will.

What Is Insurance?

Essentially insurance involves transferring risk from someone who doesn't want it, to someone who does, in this case an insurance company, in return for a fee or a premium.

In the case of business insurance, you can insure more than just physical assets. There are a wide variety of insurance policies available, covering everything from property, casualty and motor vehicle to public or professional liability and interruption to your business.

In some cases, you won't have a choice as certain policies, such as workers compensation and public liability, may be required by law for you to be able to operate a business. If you are uncertain what insurance policies are mandatory for your particular business an insurance broker can help you by ensuring you have the best policies in place to protect your business and comply with legislation.

What Should Be Insured?

There are many variables involved in the smooth operation of a business and numerous factors that can disrupt activity. That's why ensuring your business has a comprehensive risk management plan is essential. Fortunately there are a wide range of business insurance policies available covering everything from loss or damage to physical assets to protecting your gross profits, and just about everything in between.

Deciding what to insure can be complex. Your first instinct may be to protect all your assets but in some cases it simply isn't cost-effective. Essentially, when analysing what should be covered by insurance, you need to determine whether the financial cost of replacing the asset is large enough to impact your bottom line.

There are other things you should consider, even if they aren't mandatory for your particular industry. Businesses that invite customers or clients to their premises can be liable if someone is injured and the costs and damages resulting from a single accident can be substantial. Records show that many businesses are unable to recover without insurance.

In some industries, having an insurance policy can help you attract more business. If you are a builder, plumber or electrician for example, your insurance program can help you win business from your competitors.

Insuring assets is one thing but it is just as important to protect your income stream? In the event of loss, business interruption insurance provides the cash to pay on-going expenses such as wages, rent and financing costs. A sound insurance program will assist you to maintain the business' net profit.

As a business owner or manager you are probably a risk taker. Whilst it's true that if you don't take risks you are unlikely to grow, the risks you take in your business should be well considered and based on research. Some risks make little sense, especially the external factors that can play havoc with your revenue and profit.

If you are unsure what types of insurance would be most suitable for your business talk to an experienced insurance broker. The role of an insurance broker is to ensure their clients get the most appropriate cover as well as value for money.



Types of Insurance

There are many types of insurance available that mitigate the risks to your business, with some of the most important listed below. However, as someone who has been both a business owner and an insurer I cannot stress enough the importance of obtaining professional advice to ensure that your risk management strategy is comprehensive and provides the right amount of cover without you being over or under insured. Your broker's job is to help you identify your exposures and advise you how to structure a risk management plan for your particular requirements.

Liability Insurance

Liability insurance is one of the most important business insurance policies as it protects you against any losses incurred from damage or injury to other people or their property. It is important to note that liability insurance only covers the damages caused to a third party, and not your own damages.

Liability insurance policies are split into categories, including product liability, public liability, professional indemnity and workers compensation.

Workers Compensation

All businesses are required to provide compensation to employees through an approved insurance plan. The business must provide cover to allow employees financial support, claims assistance and professional healthcare if they were injured in the workplace. As requirements are different in different States you should seek professional advice.

The Workers Rehabilitation and Compensation Act 1986 regulates worker entitlements. Some of the more important benefits include:

- Continuation of income
- All medical and related expenses
- Compensation in the event of permanent disability
- The ability to return to work; in other words the business cannot sack an employee during convalescence.

Public Liability

Public liability cover provides a business with protection against damage to property owned by a third party, or injury or economic loss as a direct result of the operation of your business.

Product Liability

Product liability protects a business against any injury or damages caused by products the company manufactures and distributes. Products liability insurance does not cover the replacement of the product itself. This is a specialist cover. Contact your broker to learn more.

Types of Insurance

Professional Indemnity

If you are in the service or advice business, professional indemnity will protect you against giving advice that was incorrect or inadvertently acting against your clients' interests. Some categories of professionals (such as architects or health care providers) should also consider getting a limited policy to protect them after retirement,

Indemnity Insurance for Company Officers

Indemnity insurance for the top management of a business is designed to protect the directors against any claims made against them personally as a direct result of business operations.

Directors and Officers Insurance

Directors and Officers (D&O) liability insurance covers the decisions made by people involved in managing and running a business.

Specific duties and responsibilities are imposed on directors about the way they run a business, and in most circumstances, the individual director or officer will be held personally liable for a breach of their responsibilities.

This insurance covers the individuals, not the company. For example:

- a director, secretary or executive officer,
- a senior manager or committee member, and
- an employee acting in a management or supervisory role.

Cover and/or reimbursement of costs is only available if the company has indemnified the individual/s.

Business Interruption Insurance

Unfortunately Business Interruption Insurance is not utilised often enough, yet it is often the difference between bankruptcy and survival because it provides cover for financial risks rather than physical assets.

'BI', as it is known, covers the insurable Gross Profit of a business, which is made up of net profit and all on-going expenses, including wages, bonuses, financing costs, etc. There are typically two causes for a reduction of gross profit after an 'event'. The first is reduced turnover. In other words, lower sales will invariably mean a lower gross profit. The second is an increase in costs as a consequence of attempting to maintain normal levels of sales or production. This could involve outsourcing, the rental of premises or higher transport costs to ensure trading continues.

Types of Insurance

Business Interruption Insurance (cont.)

Other types of business interruption can occur off-site. Examples are the cessation of utilities at an electricity plant caused by an explosion, or an accident at a supplier's manufacturing facility leading to disruption of deliveries.

A comprehensive business insurance policy will cover insurable Gross Profit in both situations, namely disruptions caused on and off-site. Of course, each business is different, which is why policies should be tailored specifically to each individual case.

Brokers specialise in business insurance and can ensure that your business interruption insurance policy will offer the best solution for you.

Fire Insurance

Fire insurance is essential whether you work out of your home or from separate premises. However, like any other insurance policy, fire insurance can be quite complex and you need to understand exactly what is covered.

For example, most fire insurance policies will cover the damages to physical assets but will not cover you for any loss of revenue caused by fire if your business cannot operate.

Some fire insurance policies will only pay out the value of the asset at the time of the fire, rather than the full cost or replacement. 'Co-insurance' or 'under-insurance' can have serious consequences on your ability to rebuild so it is vital to ensure you are insured for the full value of your property to eliminate the risk of being under-compensated.

Don't rely on your homeowner's insurance just because you are working from your residence. More often than not, you will find you need a specific policy to cover your home-based business.

Again, the best course of action is to consult with a qualified, experienced insurance professional.

Tax Audit

Tax audit insurance covers the costs you incur as a result of your tax affairs being audited by a government body. This policy covers any fees you have to pay external professionals to help you respond or defend yourself. It can also cover travel and some other expenses.

Keep in mind, though, that tax audit insurance will not cover you for any fines, penalties or tax payments you may have to make as a result of the audit.



Types of Insurance

Trade Credit Insurance

Trade credit insurance is a vital policy for any business, especially if a large portion of your capital is tied up in receivables. This is usually the case for any business that sells goods and services on credit terms, generally most businesses in the 'business-to-business' sector. If you want to protect your cash flow and, implicitly, your business, you should definitely consider trade credit insurance. More businesses fail due to inadequate cash flow than a lack of sales, so it's not a risk you should be willing to accept, especially when there is a better option.

As trade credit insurance policies can vary significantly from one insurer to the next, especially in terms of the minimum acceptable thresholds, you will need to refer to a professional who understands the market.

Burglary / Robbery / Theft Insurance

There are a wide range of policies available to protect you against theft but you need to be sure exactly what they cover and especially, what they don't. Referring to a professional insurance broker makes sense to ensure you aren't over-insured and paying premiums that are unnecessary, or underinsured and exposed.

General Property

If you are a builder working on a large project you will probably have equipment and tools required on-site.

General property insurance provides cover for the accidental damage, loss or theft of any equipment that has been removed from your premises on a temporary basis. This might include mobile communication equipment, laptops, equipment and tools. If you don't include this option in your burglary/theft policy, usually the only items that will be covered are those stolen from your own premises.

Employee Fraud or Fidelity Guarantee

Employee fraud insurance, also known as fidelity guarantee, protects a business against fraud committed by employees.

This might involve misappropriation of funds or property belonging to your business. You can opt for an individual policy covering a particular employee, such as the cashier, or a blanket policy that covers all employees.

Insurance against employee fraud is important. It may be your family who suffers most if you don't protect your business and its income from all contingencies.

Types of Insurance

Money Insurance

If your company deals with large amounts of cash, it is wise to take out an insurance policy that will protect any funds you have on the premises. Money insurance can provide cover against loss or theft during business hours, after hours and during transit.

Motor Insurance / Commercial Vehicle Insurance

A business vehicle isn't just a car, truck or van to a SME business owner.

It might be a mobile office, delivery vehicle or in some cases, your place of business. For business owners it is essential to keep their vehicles running.

Commercial vehicle insurance will keep your business on the road and cover legal costs and liability for damage to other people's property caused by your vehicle.

Electronic Equipment Insurance and Machinery Breakdown

An electronic equipment insurance policy will protect your business against the loss of, or damage to, any items that are electrical, mechanical or electronic in nature, such as computers, printers, copiers and more. It is an especially useful policy if your IT systems have sensitive data or are used for a web hosting.

A machinery breakdown policy will cover the malfunction of any type of machinery, and, in some cases, food spoilage as a result of a breakdown can also be insured. The equipment that is covered includes anything that is not covered by a maintenance contract but it does not cover normal wear and tear.

Management Liability Insurance

Directors of companies can be exposed to personal liability for breaches of duties. A simple act, error or omission can be enough to spark a claim against you or your company.

You can personally be exposed to:

- The cost of defending a claim, and any damages and costs awarded. These can be based upon an allegation of you breaching your duty as a director or officer.
- The cost of preparing for and being represented at an inquiry that you are required to attend because you serve as a director or officer.
- Pecuniary penalties that arise from you being a director or officer.



- A claim against you by another director, officer or employee arising from an employment related complaint.
- Liability whilst serving as an external director.
- Liability whilst acting as a trustee of a corporate superannuation fund.

Your company can also be exposed to:

- The cost of defending a claim, and any damages and costs awarded as a result of a wrongful act.
- Theft or fraud by employees.
- The cost of investigating theft or fraud by employees.
- Pecuniary penalties imposed on the company.

This cover is particularly important in today's litigious world.

Marine Cargo Insurance and Goods in Cold Storage

Marine cargo insurance covers goods in transit, as well as any loading and unloading risks. As most damage to goods occurs during loading and unloading, this type of insurance is essential when importing goods from overseas, especially goods that can only be shipped by sea.

Goods in cold storage insurance will cover items that need to be refrigerated and which spoil as a result of the failure of the equipment. Cover is also available against contamination of the goods by the refrigeration liquid being used.

Key Person Insurance

Key person insurance is important for any business that relies heavily on one or two people, especially if the loss of one person could significantly affect the revenue or smooth operation of the business. This often occurs as a result of an accident or illness as well as an unexpected death.

Income Protection Insurance

While not technically business insurance, income protection insurance is vital for the small business owner. If you become ill or have an accident and are unable to work for an extended period of time, income protection insurance will cover up to 75% of your income. This type of insurance is personal insurance but it is critical if you work for yourself or own the business.

Types of Insurance

Types of Insurance

Business Expense Insurance

Business Expenses insurance is like Income Protection for your business as it enables the business to continue to operate if you are temporarily disabled and unable to work.

Income Protection covers your personal income but the on-going expenses of the business, for example rent, mortgage or loan repayments, equipment leasing costs and utilities payments, are not covered if you are injured or become ill. This is a useful short-term cover to allow you time to decide on the future of the business.

Trauma Insurance

Trauma insurance pays a lump sum if you suffer a major injury or illness such as heart attack, stroke or cancer.

This type of cover can be used for key person purposes or to cover unexpected personal expenses such as expensive specialist treatments or modifications to your home to provide wheelchair access.

Basically it fills the gap between life insurance, Total and Permanent Disability insurance and income protection insurance.

As you can see, risk management can be complicated and should be personalised to your particular needs.

What to Do If You Have a Claim

When a material loss claim occurs such as a fire, storm damage, a flood, an explosion, theft, malicious damage or impact by vehicle you need to first take all necessary steps to protect your property.

Call the Fire Department, Ambulance, SES and Police or Security Company to secure the premises and if necessary employ an overnight security guard. If the 'event' occurs during business hours, take steps to evacuate everyone and providing there is no danger, ensure the safe removal of undamaged goods and company records.

Then report the incident to your insurance broker as soon as practicable, but within 24 hours.

Before and after photos speak volumes so take as many photos of the damage as you can.

Lodging a Claim

Each company has different requirements for lodging or registering a claim. Make sure you have all the information on hand to make the process go smoother, including your ABN and other business details. It is best to discuss these requirements with your insurance broker.

The insurer may conduct an investigation into the claim. It is unwise to allow emotions to cloud your judgement. The insurance investigator will assess the situation objectively and if necessary, apportion blame.

Insurance Brokers provide assistance to their clients when they have a claim, and with the correct cover in place, you are able to engage your own claims expert (at no cost) to assist you with large and complex claims. This ensures you receive your full entitlement.

Getting the Right Insurance:

The Importance of Professional Advice

Designing a comprehensive risk management plan tailored to your specific requirements can be extremely complicated. Many of the policies available are not common knowledge or available to the public.

Using a broker is essential when you are arranging business insurance. The role of an insurance broker is to identify your exposures and design a customised risk management plan that provides excellent cover, is cost-effective and suits your particular needs.

By now you should have a good idea about the various types of business insurance and how you can protect your assets against major losses.

If you have any queries please contact:

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INSURANCE BROKERS

AFSL 239120

53 Henley Beach Road
Mile End South SA 5031
Tel (08) 8238 0100

www.guardianinsurancebrokers.com.au



About the Author

Michael Harrison designs lead generation, marketing and growth strategies for professional services firms.

A noted business speaker and author of three books and numerous articles about business success his clients have included Citibank, Zurich Financial Services, STAR Alliance Network, the Australian Competition and Consumer Commission and many SME businesses.

In the seventies he was internationally recognised as one of the worlds' leading insurance sales executives. In the eighties he founded Australia's first Private Bank and during the nineties he took on the role of reinventing Zurich's life insurance business in Australia.

He can be contacted at mharrison@strategies.com.au.