

# 9.4 Insurance

PRODUCT
DISTRIBUTION
PROMOTION
PEOPLE
FINANCE
<b>RISK</b>
GROWTH

- > *Categories of insurance*
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Insurance is an essential cost of running a small business. If your premises burn down or if you become seriously ill or if someone is permanently incapacitated due to a food quality breakdown, and you are sued for damages, you almost certainly could not afford the losses involved.

### **Categories of insurance**

Your insurance need not cover all of the following areas. For some of them you may be able to self-insure—that is, you can make a conscious decision to cover likely costs out of working capital and reserves. Others are catastrophic, and it would be prudent to take out proper insurance.

- > product liability
- > public liability
- > professional indemnity
- > personal sickness and accident
- > loss of earnings
- > key person insurance
- > building and contents, including plant, equipment, fixtures and fittings, and stock
- > fire, storm and tempest
- > earthquake damage
- > explosion
- > electrical breakdown or machinery breakdown
- > goods in transit
- > employee fidelity
- > theft of cash on premises or in transit
- > burglary
- > glass breakage
- > motor vehicle
- > business interruption and loss of profits
- > directors and officer's liability

You will need to decide for yourself which of these insurances are necessary in order to manage your major risks. You may also like to consider health insurance and life insurance to help offset the disruption that death or serious illness could cause to your business.

In addition to these voluntary insurances, legislation will require you to pay workers' compensation insurance and motor vehicle accident insurance.

### **A business protection plan**

A number of firms are now offering business protection plans. These are particularly valuable if the business is to be owned by multiple partners. What would happen if one of them died? Would the other partners be able to buy out his or her interest? A business protection plan provides funds to cover this sort of eventuality.

A typical plan involves (1) a set of buy and sell agreements between the partners, (2) a pre-agreed cash benefit to cover the costs of paying out one partner's interests, and (3) life insurance to provide the cash resources required.

If you think this may be relevant for your business, speak to your accountant or lawyer in the first instance.

### **Reducing insurance costs**

Some insurance is compulsory, such as WorkCover and motor vehicle third party insurance. These amounts are unavoidable, and there may be serious legal consequences if they are not paid on time.

In some cases banks or finance companies may require leased or mortgaged assets to be insured, to protect their own interests.

Voluntary insurance is a major cost, but the consequences of not insuring are out of all proportion to the outlay. Shopping around by getting a number of quotations on a competitive basis can reduce the costs.



Ask other business owners who they use. Ask them whether they have shopped around, and which firms were cheapest. Don't forget to ask whether they have made a claim, and how they were treated.

### ***Using insurance brokers***

Insurance brokers work for you, to obtain insurance at the best possible price from a reputable insurance company. Brokers may also help you to deal with the insurer if you need to make a claim.

Ask other business owners which brokers they have used. Ensure that the broker is acting for you and not simply seeking out the insurance company that pays the fattest commissions. Always insist on receiving a copy of the policy, and written confirmation that insurance has been taken out, together with details of the insurer. If you are uncomfortable, go elsewhere.

### ***Checking your insurance***

It is important to understand exactly what you are insured for, the value of what you are insuring, and the amount that would be payable if you ever had to call on the policy. This will help you make an informed choice about the nature and the amount of your insurance.

It may be tedious to plough through the fine print, but it may make a big difference if something goes wrong.

- > Read the policy thoroughly
- > Compare premiums between firms
- > Note any exclusions
- > Confirm commencement and termination dates, and make a note in your diary to renew the contract before the termination date
- > Ensure that you have made any relevant declarations, and that you have disclosed to the insurance company anything in your situation that may affect their decision to insure you
- > Ensure that you are clear about the amount that would be paid out to you, and any threshold amount that you have to cover yourself
- > Check your cancellation rights, and whether you are entitled to any refund if you choose to cancel
- > Keep asking questions until you are sure that you thoroughly understand the policy

While the insurance industry and government regulators have gone to great lengths to protect purchasers of insurance, it is still possible to be inadvertently misled by the assurances of sales staff. It is what is contained in the written policy that counts, so take the time to understand the implications for your business.

#### **Websites**

Insurance Council of Australia [www.ica.com.au](http://www.ica.com.au)