

## **THE IMPORTANCE OF A SOUND INSURANCE PROGRAMME TO PROTECT YOUR BUSINESS ASSETS AND PROFITABILITY!**

The business environment is getting tougher by the day; so much we all know. In response, well managed businesses take steps to monitor and manage their overhead cost base. Non-essential expenditure has to go and where possible, costs are trimmed to meet the new austerity drive many firms will need to implement to survive.

At the heart of cost management some businesses look at insurance premiums and question whether the costs are justifiable? Most firms of course maintain a core insurance package in place whatever the circumstances. You need to do this in areas of compulsory insurance (e.g. employers' liability and insurance for company own vehicles); but in some areas the way insurance is transacted and the amount or breadth of cover taken can fall short of that what your business needs. We thought it would be useful to list a few examples:

**Changing insurance brokers** – often because another broker offers a better price for your coverage.

If the saving is substantial, for similar cover, then the pure economics alone may be undeniably attractive. But if you have worked with your existing broker for a reasonable period, there is an investment by both parties that needs to be considered. Your existing broker may know your business, its idiosyncrasies and how best to structure the insurance programme to protect your assets and profitability. Will your new broker be able to do that? Mere replication of your existing policy may not be enough, because if your business changes the new broker will need to be able to keep track with developments and adjust your policy to reflect the changes.

You also have to consider how well your broker can support you in a claim scenario. If they have the staff in-house to help you progress your claim that can be a major benefit. If those staff understand the intricacies of all types of claims (e.g. liability, physical assets cover, business interruption) even better.

Then again, if your existing broker is not supplying much by way of service and support, it may be a good idea to change to a new broker better able to service your requirements. It might be a good idea to do this even if you end up paying a higher charge for insurance services. Why? Because you are buying the most critical protection your business needs in a crisis. It's not just about price. The cheapest premium in the world will suddenly become the costliest if the policy doesn't pay up when you really need it!

**Changing insurance companies** – whether you use a broker or go direct yourself, how strong and reliable is your insurance company to deliver on their promise (i.e. to pay a claim). You want a strong insurance partner who will stand by you in a crisis. That doesn't mean you can expect your insurer to pay out on a major claim immediately, there will always be a small delay for proper investigation of cause (because if they didn't investigate properly you would have to pay for fraudulent and unreasonable claims in the premium, which is counter intuitive). If you are

comfortable with your existing insurer, why? Have you ascertained that they are reliable and good payers? Most companies are, but some have better records of claims handling than others.

**Getting asset cover right** – your physical assets enable you to deliver your products and services. If they are damaged or destroyed your insurance policy could be the only way to provide the cash needed to replace essential equipment. Have you valued your buildings, plant and machinery, general equipment and stock accurately? In a growing business it's easy to understate the replacement value of assets. If that happens, you may not receive a full value settlement and be left with less cash than you need to fully restore your operations and capability.

**Setting business interruption cover correctly** – just as with assets you need to fully insure your revenue or gross profit correctly. Many companies get this wrong, leading to under insurance and a proportionate reduction to any insurance settlement for lost revenue or profit to reflect the inadequacy of cover.

Misunderstanding the basis of the policy is a common error. If you are in the manufacturing sector you will probably insure Gross Profit, which is often defined in the policy as your annual turnover less purchases adjusted for stock (and one or two other specific expenses). If you use Gross Profit after deduction of labour costs (a traditional accountancy definition) you could be grossly underinsured. Some companies have been known to use net profit when setting the sum insured which is even more damaging.

If you are in the service sector then your revenue in total might form the basis of your sum insured.

On a 'Sum Insured' basis of cover you have to forecast your likely Gross Profit in the 12 months following any insurance claim event. So if your policy runs from 1 January to 31 December 2009, then your sum insured should be adequate to cover the Gross Profit your business could earn from 31 December 2009 to 30 December 2010. If you base your sum insured on the annual Gross profit you are achieving right now, and you are a growing business, you could be very much underinsured if your claim occurs towards the end of the policy period.

You can build some flexibility into your cover if you adopt a 'Declaration Basis' to the Business Interruption coverage. Ask your broker if this is relevant for you.

**Building sufficient longevity into your business interruption cover** – which is critical, because many policies have just 12 months cover, meaning that you are covered for lost revenues or profits for 12 months from the date of any event. If your building burns down, it could take much longer than 12 months to reinstate or your business may take longer than 12 months to return to normality. You can extend your coverage to 18, 24 or even 36 months depending on circumstances and insurer. It's worth considering with your broker.

There are so many ways to get insurance protection wrong it has to be a worry, particularly for an SME business. A sound working relationship with an experienced and well informed broker can be a tremendous boost for an organisation keen on buying the correct targeted cover. A good broker can be worth their weight in gold, which brings us back to the first bullet point above – do you have the right insurance advice on your side in these difficult times?