



Managing Risks through Insurance: 10 Things to Consider

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Managing risk is an important part of prudently operating a business. An effective risk management system will enable the business to identify, assess, monitor and manage risks.

Some risks can be managed by having in place appropriate insurance, although this is by no means the only way of managing risk. Not all risks can be adequately insured against at a price that is commercially acceptable.

Nevertheless, insurance is an important part of a well thought out risk strategy. Additionally, having appropriate risk management strategies in place may reduce the amount of some insurance premiums.

Here are 10 tips worth considering when assessing the adequacy of the business insurance in place:

1. DO AN AUDIT OF YOUR BUSINESS AND CONSIDER WHETHER YOU NEED THE FOLLOWING INSURANCE:

- . Product liability;
- . Goods in transit;
- . Professional indemnity;
- . Public liability;
- . Loss of income or business interruption;

- . Loss of rent (tenant default);
- . Property;
- . Vehicles;
- . Theft and employee dishonesty;
- . Workers' compensation;
- . Key person;
- . Directors and officers; and
- . Life insurance (for the business owner).

2. CONSULT WITH A REPUTABLE INSURANCE BROKER, PREFERABLY ONE WITH EXPERIENCE IN THE INDUSTRY IN WHICH THE BUSINESS OPERATES

Insurance is a complex issue and it is important to obtain proper advice about what cover is provided and what is excluded.

3. PERIODICALLY REVIEW INSURANCE ARRANGEMENTS TO MAKE SURE THEY ARE UP TO DATE

Businesses often don't realise they are under insured until there is an adverse event.

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4. MAKE SURE YOUR BUILDING AND CONTENTS ARE VALUED AND INSURED FOR THEIR REPLACEMENT COST

The depreciated value of the building and contents contained in the financial statements for the business will not reflect the actual replacement cost.

5. MAKE SURE YOU UNDERSTAND THE EXCLUSIONS AND LIMITATION CLAUSES IN ANY INSURANCE POLICIES HELD BY THE BUSINESS

Policies often have exclusion clauses which a business owner may not expect, such as exclusions about loss of cash, losses resulting from employee dishonesty and losses relating to computer equipment failures. It may be worthwhile paying a premium to have extra cover included in the policy.

6. ENSURE YOU UNDERSTAND WHAT IS COVERED BY YOUR BUSINESS INTERRUPTION INSURANCE

It is generally designed to cover the loss of income incurred if normal business operations are disrupted by damage to the property. If your business location is critical to your ability to produce income (such as for a retailer or manufacturer), then you will definitely want to have business interruption insurance in place.

Also consider whether your business interruption policy needs to cover more than just the destruction of the business premises. For example, interruption of electrical, water or telecommunications services to the building could cause a significant loss of income without involving any destruction of the property and this may not be covered by a standard policy.

7. CHECK WHAT WAITING PERIODS APPLY TO BUSINESS INTERRUPTION CLAIMS

You should consider whether it would be better to have a deductible rather than a waiting period. This will depend on the nature of the business. It's also important to consider how long the insurance lasts after a catastrophic event.

Depending on the nature of the business, the income stream may be disrupted for a considerable period after the event.

8. CHECK WHETHER THE BUSINESS INTERRUPTION POLICY COVERS ADDITIONAL EXPENSES INCURRED, OVER AND ABOVE THE LOSS OF INCOME

If the premises are destroyed, then the business will have the expense of renting substitute premises, buying or renting all of the computer and business equipment it requires, installing telephone lines and replacing stationery. Not all business interruption policies will cover those expenses.

9. STORE ACCOUNTING AND OTHER BUSINESS RECORDS OFFSITE AND ENSURE THEY ARE UP TO DATE

If you need to make a claim following a catastrophic event at the business premises, then you will need access to those business records to complete the claim.

Having proper records of equipment, inventories and other essential items for the operation of the business can mean the business is up and running again quickly, and the insurance claim is processed more expeditiously.

10. FAMILIARISE YOURSELF WITH THE PROVISIONS ABOUT THE TIMING OF ANY PAYOUTS ON THE BUSINESS INTERRUPTION POLICY

If a catastrophic event occurs, then the business is probably going to need to access the insurance monies quickly. Some insurance policies have a schedule of payouts or set timeframes.

It is important to check whether such limitations are included in the policy and what impact this might have if a claim needs to be made.

ClarkeKann Lawyers has experience advising about all aspects of risk management and prudent business practice. Please let us know if we can assist you.

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