How to find the right cover for your SME or start-up

The current risk climate

Going into business is exciting. Yet in the early days – when optimism is high and money is tight – it's tempting to take shortcuts and skimp on insurance.

But you don't want to be uninsured when the unexpected happens. Examples include food contamination, cyber risks, property damage, product recalls and Australia's ever-present risks of fire, flood and extreme weather.

PwC has identified six key risk-management priorities for businesses; addressing each will help protect your business:

- Crisis management and response
- Workforce
- Operations and supply chain
- Finance and liquidity
- Tax, trade and regulatory
- Strategy and brand

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Price versus coverage

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Businesses operate in a complex regulatory and legal environment designed to secure the health, integrity and safety of businesses, their employees, customers and the wider community. From time to time, things go wrong

That is where insurance offers a safety net.

When budgets are tight it’s helpful to speak to an insurance broker/advisor who is experienced in the unique issues facing your industry, as they can help save you time and money, ensuring you have the right cover at the right price.

For example, there may be a need to trade off between the premium and excess. Lower your upfront premium and take the risk that you may pay a higher excess later should you need to make a claim; or pay a high upfront premium now and lower your excess where your business may be exposed to a greater likelihood of an event causing a claim.

Calculating a premium

When it comes to insurance, there is 'what you need' and 'what you can afford'.

At its most basic level, the premium is the guaranteed price you pay for insurance in return for the insurer agreeing to assume the possibility of future risks to your business. In other words, insurance removes some of the uncertainty of risks to your business, so you can get a good night's sleep

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But how do insurers arrive at the premium when no two businesses are exactly the same, and their risks and needs are so varied?

This calculation is part of the process of underwriting. Premiums are calculated on a range of factors with reference to the industry and the underwriting criteria, including:

- **Frequency**: Underwriters analyse how likely an event is to happen.
- **Severity**: Underwriters analyse the likely cost of an event.
- **Your company's risk**: The type of business, its processes and its location, its exposure to potential risk and previous history of claims is evaluated.
- **Your company's people**: The insurer will look at the directors, their financial management and the safety record of employees.
- **Inspection**: The insurer will explore the business's property, policies and processes to determine how well the company has mitigated against hazards and risks to the business.
- **Part of the local & global community**: insurers are part of a global network which helps to spread the risk therefore catastrophic events both in Australia and overseas will also impact the premium you are charged.

Underwriting is an analytical process designed to identify and price risk. But there are ways to lower your premiums, such as proactive risk management, closing areas of exposure or opting for a higher excess in the event of a claim.

Excess

Insurance companies charge an excess so that your business takes on some of the risk in the event of a claim, and to remove small losses that would otherwise increase the premium cost.

Excess can be used by a business in one of two ways. Pay a higher premium for a lower excess. Or pay a lower premium in return for a higher excess.

In the search for savings, taking a higher excess at the beginning of the policy could get you the premium you can afford balanced against the cover you need. Choosing the level of excess for each of your business policies will depend on how likely you believe an event will occur.

CASE STUDY: JOE'S BARBERSHOP

Joe has been cutting his regulars' hair for 45 years from his suburban salon, which features a large glass-panel window. The area has recently experienced some vandalism and the glass has been smashed three times in the past five years.

At $800 per claim, the excess is steep for Joe's modest business income. So he is taking another look at his insurance. For a higher premium, Joe can take out glass insurance with a lower excess of $400. It's a simple calculation with an unknown variable: how many times does he think his window will need to be replaced?

Joe's dilemma is one faced by businesses across the country as he weighs up the costs and likelihood of further damage to his shop. Insurance can help Joe by replacing this uncertainty with certainty measured by the cost of his premium and excess.

Price vs cover

Ultimately, every business owner must make a call about how much they're willing to pay for insurance versus how much they're willing to cover. There's considerable peace of mind from knowing your business is fully insured against every eventuality – but also, potentially, considerable cost.

But compared to the cost of an incident occurring against a risk you decided not to cover? That's a decision every owner has to make for themselves.

Essentially, business owners need to go through the same sort of risk assessment as insurers, considering an incident's:

- **Likelihood**: Are we considering small frequent incidents that could easily be absorbed as a business expense or less likely but more damaging events, like fire and flood?
- **Cost**: What are the likely costs of repairs or restitution? Could the business cover those expenses, or would external funds be needed?
- **Severity**: What would be the other impacts on the business? Would you be able to keep trading? Would your reputation or ability to attract clients be harmed?
- **Contractual obligations**: Keep in mind that you may need to purchase insurance to satisfy contractual obligations with landlords, suppliers and customers.

The best advice is to do your research on risks and insurance policies and to contact an insurance broker/advisor. They will be able to suggest policies, help you estimate risks and suggest a package tailored to your needs, finances and appetite for risk.

The claims process

Suffering a loss is stressful. Whether it is the theft of a computer with sensitive company information in a foreign country, inundation of flood waters or dealing with a product recall, you just want to get back to business as quickly as possible with minimal interruption.

To make the claims process less frustrating, it is helpful to understand a little bit about how you and your insurer can work together to ensure a good outcome. Whatever happens, both policyholder and insurer are working to get your business back on track.

You and your claim

- Stay safe.
- Do whatever is necessary to prevent further loss or damage – while taking care to stay safe and keep out of harm's way.
- Report loss or theft to police and get relevant report numbers
- Contact your broker/advisor as soon as possible.
- Carefully check your policy for inclusions and exclusions.
- Collect all relevant information (including proof of purchases) for a speedy claim.

The insurance company and your claim

- The insurer opens a claim file.
- They begin the process of assessment based on the information you have supplied and have an assessor estimate damages.
- Most insurers are bound by a General Insurance Code of Practice to manage claims in an honest, fair, transparent and timely manner.
- Your insurer may appoint experts to conduct 'make-safe repairs', assess the quantum of damage and arrange for repair and rectification. In the case of a liability claim they may appoint solicitors to act on your behalf.

Assessing and paying out claims

Once a claim has been lodged, there are two further steps in the process:

1. Assessing a claim.

2. Paying out a claim.

ASSESSMENT

The insurer needs to make a decision about each claim: repair, rebuild, replace or, in certain circumstances, offer a cash settlement. If the claim is complex, it is likely that the insurance company will appoint a specialist assessor to decide the extent of the claim. It is their job to ensure the claim is paid out under the terms of the policy and determine the scope of the work.

Insurance companies will often have a list of tradespeople or other professionals to carry out any work to meet building industry standards and act in a professional manner.

Notably, if you are in financial dire straits then insurers are required to fast-track your claim.

PAYING OUT CLAIMS

Once the extent of the loss is determined, the insurer pays out the claim. Urgent funds may be advanced before this to cover immediate and necessary repairs such as the need to stop water coming into the business premises.

To ensure your claim proceeds smoothly you should retain all business receipts and proof of asset purchases in a safe and secure place.

Business insurance broker advice

When getting involved in a new business, the risks and exposures are often clouded by optimism or inexperience. After all, you don’t know what you don’t know.

That is where an insurance broker/advisor is invaluable. As insurance brokers, advisors we can use our experience in assessing risk to provide advice on the best cover for our clients. Our responsibility is to understand our clients’ businesses and identify the pitfalls unique to their industry, then provide a range of policy options.

Brokers work for their clients, *NOT* for insurance companies

There are various industry safeguards to ensure insurance brokers gain the qualifications needed to offer high-quality advice to our clients. Commissions should be transparent and fully disclosed.

- The National Insurance Brokers Association of Australia has a strong **Code of Practice** that governs its members’ conduct.
- In Australia, insurance brokers are required to operate within an Australian Financial Services (AFS) licence. This imposes **legal obligations to act efficiently, honestly and fairly,** and sets out certain requirements when providing advice.
- Insurance brokers who provide financial product advice to individuals and small business must meet **minimum mandatory training requirements.**
- Brokers should **hold relevant qualifications** such as a Qualified Practising Insurance Broker (QPIB) or Certified Insurance Professional (CIP)
- The industry is **overseen by the Australian Securities and Investments Commission** (ASIC).

New risks on the horizon

Insurance brokers/advisors will advise you on the appropriate insurance cover for your business such as workers compensation, professional indemnity, public liability or building insurance.

But increasingly, businesses are having to factor in extreme weather events or the changing technological landscape.

- **Cybercrime** is rising and many businesses underestimate the disruption and costs involved in being a victim of online crime. Consider your data protection measures and the reputational risk of a major hacking event. Businesses need to get serious about cybercrime and brokers/advisors can help you understand the risks.
- **Extreme weather events** are occuring more often, regularly leading the news bulletins. A broker/advisor will analyse your business's exposure and ensure you have adequate insurance to meet your needs.
- **Industry trends and risks** must be carefully watched and risks anticipated. While you are responsible for your business decisions, an experienced insurance broker/advisor can help you evaluate the risks more clearly.
- **Supply chain risks** are becoming significant, and they're not limited to shipping and availability. Suppliers can present reputational risk if their practices are unsafe or unethical.
- **The COVID-19 pandemic** has made us all aware of health, reputational and business continuity risks. Every busines needs plans to cover such eventualities; while they are unlikely to be needed, the current climate shows how important they are for any businesses' survival

Case study: Underinsurance in rural Australia

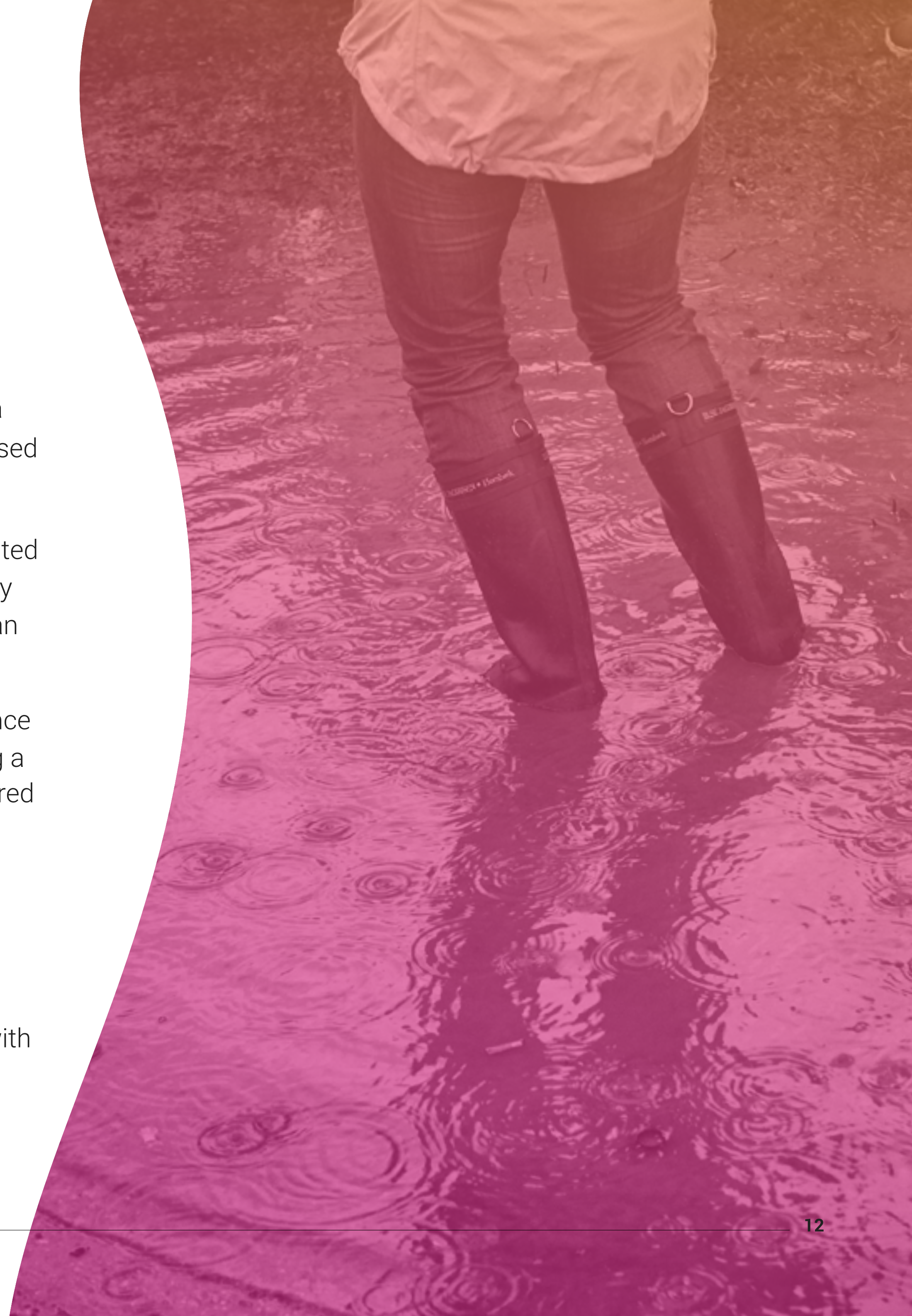
Australia's 2019–2020 bushfire season was brutal and destructive. Its aftermath was more than lives lost and homes destroyed; it also revealed a 'national crisis of underinsurance' that has prolonged the recovery and caused additional stress and suffering.

It has emerged that nearly two-thirds (65 per cent) of the households affected were uninsured. The picture for businesses is similarly grim. An NAB survey showed nearly two-thirds of firms were affected by the bushfires. More than 60 per cent said the impacts would continue into 2021.

It's important to note that these shortfalls aren't simply a result of negligence or unwise risk-taking. The costs to get a business back on its feet following a loss are complex and impacted by many factors that are often not considered by a SME owner.

Building codes have become more stringent and construction costs can increase after a disaster thanks to the surge in demand for builders and materials.

A national disaster recovery policy is needed. But in the meantime, check with your insurance broker/advisor to get a realistic price for disaster recovery, and consider increasing your insurance to cover it.



Getting covered

Choosing the right insurance cover to protect your business is vital.

In an age of climate change, technological advance and increased corporate regulations, understanding and assessing the risks and exposures facing your business can make you feel like you have to be across a gamut of issues.

But it’s a decision you don’t need to make on your own; contact your insurance broker/advisor for the advice and assistance you need.