

Beginning In Business Series

Introduction To Insurance

Report Prepared For:

[Client Name]

5 March 2010

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1. Avenues Of Insurance Covers

- The subject of insurance for a business is a broad field and can range from complicated policies for large companies to simple policies for small businesses
- Before delving into the types of policies and covers they provide, it is perhaps prudent to explain the avenues open to a businessperson in procuring insurance covers
- Business insurance can be effected through either a broker or directly with the insurance company

2. Insurance Brokers

- Brokers are persons or organisations that are independent of insurance companies
- Their task is to research the market by way of products available from various insurance companies and to make recommendations to their clients in relation to the covers required, scope of the cover and cost
- For this service, brokers charge a fee and also receive commission from the insurance company with which they place your business
- When dealing through a broker it is not normal for the insured to have dealings with the insurance company directly, as the broker represents the insured

3. Insurance Company

- An insurance company is the actual underwriter of the risk and as such receives the premium and in the event of a claim, pays out
- An insured may deal directly with an insurance company. Insurance companies do not charge fees for dealing direct with them.
- There are numerous insurance companies, ranging from the very large to the very small specialist insurer
- The major insurance companies all have various types of business insurance, ranging from individual policies for different covers to packaged policies
- These packages can be tailored to suit the individual needs of each business. For example, a clothing store would not need cover for deterioration of frozen food following an electrical breakdown, whereas a convenience store would.

4. Insurance Required

- The insurance policies that are required by a business depend on the type of business
- The insurance requirements would normally be decided by the insured in conjunction with a Broker and/or Accountant

5. Types Of Insurance

The types of insurance to be considered include:

- Fire and Specified Peril - such as storm and tempest, cyclone, flood etc. - can also be known as Material Damage. A point to watch is in relation to insuring for full value as co-insurance clauses are normally applied. (This means that if you under insure the property, in the event of a claim, you will only receive the same percentage for what your insurance cover was to market value as to the claim. In other words if you are only insured for 70% of value you will only receive 70% of any claim irrespective of the amount of the cover).
- Consequential Loss - also known as Loss of Profits. This cover can only be taken in conjunction with a fire policy and can only be claimed upon as a result of a claim of the insured event under the fire section. Individual policies may give a choice of a gross profit figure or a weekly income figure. It is wise to watch the indemnity period. Also note that claims are only payable if the business is recommencing. The amount of cover taken should be reviewed annually.

This type of policy covers Buildings, Fixtures and Fittings, Stock, Removal of Debris, Rewriting of records etc.

- Glass - most commercial leases today place liability for glass insurance on the tenant. It is important to remember the cost of sign writing and illuminated signs when determining the amount to be insured.
- Burglary - generally a burglary policy does not cover money or glass as these need to be insured separately under relative sections. Some risks also require the installation of alarm systems (both audible and on-line to a central bureau.)
- Money - does not cover embezzlement, fraud or accounting errors. You should check for the cover applicable to cash on premises, cash held overnight at Business or Home, cover whilst in transit to bank etc.
- Public Liability/Product Liability - in this day and age a most important cover is liability insurance. The adequacy of the sum insured is important. The sum insured should be reviewed annually.
- Accident Insurance - covers unforeseen and uninsured occurrences
- Partnership Insurance - enables effective life insurance cover to be taken in the event of a partner dying or becoming permanently disabled, to assist in the purchase of the deceased's share of the business and to having funds to pay secured lenders in the event

that assets used as security for a business loan are no longer available. (Refer Paper 10.50 - "Succession Planning - Why Is It Necessary?")

- Personal Accident - includes keyman insurance, disability insurance, trauma insurance, etc
- Machinery Breakdown - includes fusion of electrical engines, air conditioners etc. The sum insured will depend upon the business involved.
- Deterioration of Stock - obviously required when perishable stocks are involved. Some policies offer cover for failure of public power supply.
- Electronic Equipment Breakdown - refers to a breakdown of computers, cash registers etc
- Motor Vehicles - generally the insurance of motor vehicles would be required under a separate policy, either on a one only basis or on a schedule to a policy if required. If motor vehicles are financed then the finance company will insist upon full insurance cover.
- Professional Indemnity - this policy is a "must" for anyone engaged in a profession or similar occupation. It covers the insured in the event of being sued for wrongful advice etc.

For further information on Insurance, refer to Paper 24.01 - "Insurance - An Overview".

6. Completion Of An Insurance Application Form

- It is important that correct answers are submitted to the questions on the insurance proposal form, otherwise the insurer can use the incorrect answer as a reason to refuse a claim
- Review the sum insured on at least an annual basis
- Check that the insurance policies are in the correct name
- Every time you start a new business or open a new branch, make sure that your insurance policy is updated or amended accordingly
- Think about insurance covers before an event. (Don't wait for a cyclone warning to update your insurance - the insurance company will probably decline cover until after the cyclone has passed - by then it might be too late!).

7. Handling An Insurance Claim

- Protect the asset (as best you can) on the basis that you are not insured
- It is your responsibility to minimise the risk, even if you are fully insured
- Notify the Insurance Company or Insurance Broker as soon as possible even if there is some doubt as to whether you are covered. (Do not delay the notification to the Insurance Company - under most policies the Insurance Company can decline the claim if they are not notified of the potential claim promptly.)
- Keep full records of the matters discussed at all meetings with insurance company staff, insurance brokers, loss adjusters etc

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