

Insuring your business

Although most business people understand the need for insurance, a surprising number of businesses are uninsured, under-insured, or insured with out-of-date policies.

Experts usually advise that your planning should centre on insuring for a catastrophe. You should therefore check that your insurance for fire, loss of profits, employers liability, public liability, and product liability is correctly arranged with suitable sums insured or indemnity limits.

Any business could suffer a major loss in any one of the areas mentioned above. Under-insurance will result in a proportionate reduction in an insurance claim, and could threaten the future of the business, or at the very least reduce its ability to trade.

Did you know?	Conversely, over-valuation will mean wasted premiums because the liability of an insurance company usually extends only to the cost of reinstatement of the insured asset.
That the UK insurance industry comprises more than 1000 companies employing more than 309,000 people. Of these companies there are more than 700 who provide general insurance cover. General insurance premiums are in excess of £32 billion.	In times of inflation, when property and stock values increase, make sure you still have adequate levels of insurance cover. In times of recession when property decreases and stock levels fall, make sure you are not over-insured.
Source: ABI: 2008 key facts	

Shop around

Do not accept that your existing insurers will necessarily continue to offer you the best value for money. The services of an independent broker can be invaluable in establishing the best cover at the most competitive level of premium.

Some of the more common types of insurance risk are:

Public liability - claims for damages to third parties.

For example, a fire might start on your premises and spread to your neighbours' premises. Losses here might include profits or records.

The highest awards presently being made are in respect of third party claims for personal injury. An award of over £1 million has been made recently for a customer tripping over a piece of flex left trailing across the floor!

Employers' liability - acts performed by your employees or subcontractors.

Product liability - injury or damage caused by a failure of your product.

The Consumer Protection Act has placed a greater onus on anyone dealing directly with the public. Proof of negligence is no longer required; the fact that a product causes injury places the blame on the supplier.

Fire and special perils

Decide whether the valuations placed on premises and plant reflect a fair cost of reinstatement to new condition. Too often, plant is insured on a second-hand value, and building values fail to take account of all the costs of rebuilding or reinstatement, including:

- The cost of debris removal
- Professional fees, e.g. architects
- Planning or possible anti-pollution requirements that might be imposed by the local authorities

Please note: Standard policies will normally restrict the loss due to terrorist explosion (check this restriction with your insurer) - additional cover can be purchased.

Security

Insurers are placing greater emphasis on security of all types; sometimes insisting on NACOSS approved burglar alarms and specifying designated fire extinguishers.

It is still very common for back-up copies of computer data to be left adjacent to the computer system, so that even a small incident can cause serious damage to the business. Consider keeping your back-up off the premises.

Vehicles

Have you considered the options available for insuring business vehicles? Will you opt for full protection, or accept costs below a particular level and insure for the excess? Discounts are often available for fleets of more than five vehicles.

Stock and work in progress - loss or damage

Is the insured value adequate to cover seasonal fluctuations?

Are goods in transit or goods held in trust covered? Do check before working on customers' goods whether they need to be covered under your policy.

Are stocks vulnerable to special risks, e.g. flooding or power failure?

Loss of profits - consequential loss

You can insure against loss of profits or increased costs that may arise as a result of disruption to your business. However, this type of cover is often the least well planned.

In essence, the insurers pay for loss of gross profit as a result of reduction in turnover. For example, if you run a transport company, a fire could destroy the office, but turnover could be maintained because the vehicles can still continue to haul goods. There would consequently be no loss of turnover and therefore any gross profit claim would not be covered.

You should take into account a dependency on particular suppliers or customers. If they have a fire at their premises, it could have a serious effect on your business.

You also need to think about how long it would take you to rebuild your turnover to its original level. Before this can even start, you may be involved with:

- Replacement of machinery
- Planning permission for a new building
- Construction of a new building

Most insurance policies cover you for twelve months, but is that enough?

Once the indemnity period has been chosen, it is vital to check that the sum insured is adequate. If, for example, your policy is due for renewal on 1 January 2009 and a claim occurs on 18 December 2009, the sum insured should be sufficient to cover you for the gross profit you would

expect to have earned by 18 December 2009. It is not sufficient to look at your last set of accounts - you must project forward to the end of the next insurance period.

Factors you need to take into account include:

- Loss of sales, accounting or business records
- Replacement of lost plant and equipment
- Costs of maintaining the business as a going concern, e.g. paying the wages and salaries and other standing costs
- The professional fees in preparing estimates upon which to base claims

Engineering insurance

Do you have potentially dangerous or unstable assets, e.g. pressure boilers, lifting gear, cranes etc.? Such items are subject to statutory inspection.

With the advent of various electrical installation regulations, the onus on the employer is greater than ever. Insurance companies can provide an inspection service and are independent, whereas unscrupulous manufacturers or suppliers of equipment might have a vested interest in overemphasising unimportant faults.

Cash - theft or loss

Such losses might arise on business premises or in transit, e.g. taking cash to the bank.

Keyperson insurance

Are you covered for any damage or costs that might arise as a consequence of your death, or the death or serious incapacity of key staff members?

Personal accident and permanent health

Have you considered insuring against your own serious illness or death? How would you or your dependants deal with:

- The continuation or disposal of the business
- Hospital and convalescence expenses
- Loss of present earnings
- Repayment of your own mortgage
- Payment of inheritance tax

Life assurance

Have you considered the benefits of life assurance as a tax efficient method of investment?

Personal assets

You should also consider your insurance levels for your house, jewellery, credit cards, furniture, caravans and boats, and electrical equipment etc.

Do call us if you would like further help or advice on this subject.