

AIS Liaison

The AIS Insurance Brokers Newsletter

AUTUMN 2018

In a risky world, you can't 'set and forget'

So you're insured against the risks that could harm your company. You're thriving in a competitive market, and all's well. That's great, but you've forgotten something.

As a business grows, its risk profile changes. You buy new equipment to make your firm more efficient, for example. But when you bought it, did you give us a call to add it to your inventory?

Because as you're growing, it's logical that the risks you face are also growing.

So just as it's essential to have your business insured, it's equally important to follow up with regular reviews to assess if what you have covered is still adequate.

This aspect of running a business very often receives scant attention, but it's something business owners and managers shouldn't allow themselves to ever feel relaxed about. No matter how the day-to-day aspects of the business dominate your thoughts, you must remember a thorough insurance program is the thing that keeps your company safe as you grow.

Don't put it on the backburner, because after disaster has struck is way too late. By then, your business could be badly out of pocket or under-insured, just when you need all the help that you can get.

The latest SME Insurance Index compiled by insurance company Vero suggests that far too many owners are still not assessing their covers regularly



No matter how complex the business gets, take time to contemplate your risk exposures

and are therefore exposing their businesses to unnecessary risks.

Only 46% of the 1619 SME companies surveyed said they carry out a regular review of their insurance arrangements. And 22% only do so when prompted by their insurance broker or other risk advisers.

About 37% have re-assessed their covers only because of changes or events, 32% say they do so because of premium changes and 10% linked it to having to make a major claim or other "significant event".

About 40% do not have any form of standard reviews and 8% admitted they haven't checked their insurance cover since starting their business.

The index also found that 26% undertake policy reviews only when there are changes to the business such as a huge equipment purchase or installation of a new IT system.

While the results of the index are not all doom and gloom, it's clear regular housekeeping of existing insurance covers as their businesses grow isn't the high priority it should be for business owners.

We can help you set up a timetable to regularly review your existing cover.

Making it a habit to check your risks not only ensures your business is adequately insured, but it also keeps the business owner up to date on the latest types of cover available in the market.

Business risks are constantly evolving and insurers are continually developing and updating policies in response. Risks are becoming more complex and even dangerous as digital commerce becomes mainstream.

The lesson is obvious: Never "set and forget". As your business grows, so do the risks. We would be happy to help you carry out regular reviews to make sure all eventualities are covered – always.

Don't risk your reputation

Examples of corporate scandals, failures and mistakes aren't hard to find. What's often not highlighted is the cost to the business of a diminished reputation.

Facebook took a hammering after it was revealed in March that data from millions of the site's users was manipulated for political advertising.

In the car industry, Volkswagen issued apologies for software that allowed its diesel vehicles to cheat on exhaust emissions tests.

Closer to home, a royal commission is at present shining an uncomfortable spotlight on Australia's big four banks as they battle culture and reputation issues that have dogged them in recent years – particularly in the way they handled financial advice.

But it isn't just major listed companies that face reputational risk.

Many smaller businesses have battled to recover their standing with their clients and customers after problems with the services and products they supplied, or when professional advice has fallen short of expected standards.

In some cases, businesses have had their reputation damaged through claims of bullying or unfair dismissals that undermine their image in the wider community. Would you be happy dealing with a company that has been exposed in the media or online for mistreating its employees?



The Facebook fiasco shows how fragile a reputation can become

The rise of the internet and mobile technology has raised the stakes. Social media means disgruntled customers and whistleblowers have a stronger voice, while news of problems can be revealed more quickly and travel more widely in a shorter time than has ever previously been possible.

The inter-connected world also comes with the added responsibility of protecting customer details amid a rise in cyber crime. Laws that took effect in February mean companies with an annual turnover of at least \$3 million face hefty fines if they fail to disclose data breaches to people affected.

Contemplating the increasingly wide range of reputation risks any business may face is the stuff that keeps business owners or managers awake at night. But managing the raft of issues that can hit the reputation

of a business is much less stressful if you know the right insurance is in place to help you through the crisis.

Professional indemnity cover is important for businesses that provide a service or advice and which have a client relationship where trust is particularly important.

Business sectors that can benefit are wide-ranging – everything from architects and beauty therapists to accountants and even financial sector advisers.

Cover offers protection should the owner or their staff make an error, omission or breach their duties. It helps to pay for costs arising from any legal action.

Importantly, it can also provide assistance with public relations strategies and related expenses, helping to prevent adverse repercussions enduring long after the initial problem is resolved.

Management liability insurance covers issues arising more from the direct running of the business, such as unfair dismissal or confidentiality or fiduciary duty breaches.

Cyber insurance, a more recent addition to the toolkit, has particularly risen in profile with the start of disclosure laws and increased regulatory attention.

Managers who place the highest possible value on the good standing and integrity of their business can still be blind-sided when something unexpectedly goes awry – and when that happens reputation is one of the first casualties.

Reputation remains one of the most valuable assets a business can possess, but it's often overlooked when people think about insurance. We can help you arrange the most effective cover to ensure that when things do go wrong, there's a safety net.

Recovering from a liquidity crunch

Let's face it, cashflow is the lifeblood of any business big or small. It doesn't matter if you're selling goods or services, your business exists to bring more money in than it pays out.

And the biggest threat to that simple maxim is bad debts. You can have the most meticulous, disciplined credit management procedures in place and still be exposed to them.

As long as you're running a business, there is no running away from the risk of one or more debtors defaulting on payments.

It should come as no surprise that cashflow issues are what keep business owners and managers preoccupied much of the time. All it may take is one major debtor failing to pay and you're dealing with your very own financial crisis.

Figures from the Australian Securities and Investments Commission indicate small and medium-sized businesses are most vulnerable to insolvencies.

About 84% of the insolvencies reported to the regulator had assets of below \$100,000, 79% had less than 20 employees and 43% had liabilities of no more than \$250,000.

The leading cause of failure? Inadequate cashflow. So it's clear how someone else's inability to pay can easily have a domino effect that affects your own business. It can wipe out your profits, weaken the balance sheet, hurt your business credit rating and eat up valuable amounts of your management time.

While it may be impossible to remove the risk of bad debts, there are certainly options that you can take to avert a liquidity crunch if your debtor turns rogue.

Trade credit insurance is one of the best ways to protect against bad debts or insolvency in the event of a non-payment by a debtor.

When you have trade credit cover, you are essentially protecting your accounts receivables from insolvency, payment

default and other forms of credit risks.

Put simply, you get paid for the goods and services you have provided from your trade credit cover if recovering the debt is no longer possible.

Yet a surprising number of business owners don't take out policies that would cover their debtor ledgers. The evidence suggests that many SME businesses think such cover is expensive, complicated and even unsuitable.

We don't agree. It's important to have all your bases covered, and trade credit insurance is certainly one investment you should consider. We can help you work out the most appropriate cover that best suits your needs and budget.

If you're looking at protecting your business from credit risk, give us a call now. When that important source of income you relied on to keep your cashflow flowing suddenly dries up, you could well find trade credit insurance is the best insurance investment you ever made.



We can help you avoid this situation

How would your business survive the loss of a key person?

Losing key personnel to a major illness, death or injury is always going to be a big blow for businesses of all sizes and across all industries. In extreme cases, some companies have taken years to fill the void left by the loss of one person who had the experience, knowledge or even reputation that kept the company buoyant.

Managers usually find it's very difficult to replace that special, unique skill set possessed by the brilliant advertising strategist, top salesman, co-founder or even CEO.

When someone in a key position resigns they are usually bound by their employment contract to remain for a period that allows time to find a suitable replacement. Sometimes the replacement can work alongside the person who has resigned as they pick up the reins.

But serious illness or something like a fatal car accident can throw the best-laid plans into chaos.

And it's not just financially where the impact may be acutely felt. Shareholder confidence can be shaken. Staff morale can take a blow. Established clients may defect to rival companies.

You can see the risk in a small company, where one skilled individual can really make a difference. But it's also a risk for the very largest of companies. Take the case of Apple, which found its pipeline of game-changing innovative products severely weakened when its founder Steve Jobs died of pancreatic cancer in 2011.



Losing a key person can destroy a business

He was the heart and soul of Apple, rescuing the tech giant from the brink of bankruptcy and developing a line-up of products that had consumers all over the world clamouring for more.

Apple has not had a big product hit since his death, but what the Cupertino-based giant has in abundance is financial might and the market-leading resources to bide its time until the next real innovation is developed.

It's a different story for companies in the SME space, however. Neither time nor resources are going to be on your side when that key person is lost to you through serious illness or death. You operate on a smaller scale and you will be hard-pressed to plug the gaps that open up with such a traumatic loss. And it happens all the time.

As your broker, we recommend that you consider the merits of taking out key person insurance cover.

Most businesses are aware of and do take out cover to protect equipment, plants, machinery, buildings and other physical assets, and other types of common insurance.

But insuring the human asset, which is equally vital to a company's success, is usually put on the backburner for a variety of reasons.

By insuring that key person or people, the business will be compensated in the event that they cease to be a part of the company through illness, death or injury.

For small companies, such compensation is often crucial. The payout can help the company to work through the setback as management looks for a replacement and meets its financial obligations.

We can help you to get started on a key person program to protect your most important asset – human talent. Give us a call now and we will be happy to work out a cover that meets your business needs.

AIS

A.I.S. Insurance Brokers Pty Ltd

137 Moray Street
South Melbourne 3205
PO Box 7760
Melbourne Victoria 3004

Telephone: 03 8699 8888
Facsimile: 03 8699 8899
insure@aisinsurance.com.au
www.aisinsurance.com.au