

AIS

Liaison

The AIS Insurance Brokers Newsletter

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The unseen cost of underinsurance

If you add up all your business assets, how much is your business worth? Not how much it's insured for, but how much it's actually worth.

It's a fair question that we always ask new clients, because when it comes to valuing assets, there's often a temptation to undervalue. As one client explained it, he undervalues to "get the premium down".

He changed his mind about that once we had explained the full financial risks of nominating a figure that is too low.

His thinking was based around the assumption that even if he was underinsured for a total loss, the policy will still fully pay out for partial damage as long as the claim remained within the overall sum insured total.

But that's not how it works. Such a misunderstanding could have left his business more exposed than he'd intended. Because business policies typically include average, co-insurance or underinsurance clauses.

If a business is underinsured for the total loss, then any



Don't risk it: the consequences of underinsurance can be devastating

claim for partial damage will also be settled at a proportionately lower level.

Take the scenario of a property that is covered for \$50,000, when the correctly calculated value would be \$100,000. The policyholder might think partial damage worth, say, \$50,000 would be fully covered as it falls within the sum insured level.

In reality, only \$25,000 would be paid to the business owner, as the 50% underinsurance rate would also be applied to claims for partial loss or damage.

The approach helps underwriters to receive

correctly priced premium payments for the level of risk they are taking on, whether that's for total damage or losses at lower levels.

It discourages people from gambling with underinsurance and realising too late that it is a false saving, and it ensures those who accurately declare asset values are not subsidising those who don't.

Many policies allow a degree of tolerance for getting the total insured value correct, providing leeway for various fluctuations and small errors. The proportional impact for partial loss claims in those

cases will kick in when the underinsurance margin falls below a certain level, which in some policies could be 85%.

In the case of business interruption, insurable gross profit should also be covered for the full value, and there is often little tolerance for error here, particularly in areas such as standard industrial special risks.

Having inadequate insurance cover can prove devastating for a business. It's worth talking to us to make sure everything is in order, and that what you're covered for is the true value.

Business interruption: why your company needs it



Stay afloat: business interruption can be a life-saver

Have you ever stopped working for a moment to consider the number of things that could bring your business to a halt? It could be anything from a fire on your premises to a flood.

It might even be something that actually happens to someone else but still affects your business.

Without going into a long list of possible factors, the point is that there is no end to the number of uncontrollable factors that could force your business to suspend trading indefinitely.

Which is where business interruption insurance comes in. It buffers your business against all those unpredictable risks that could choke your income stream.

But far too many SME business owners are running their operations without any form of business interruption cover, exposing their companies to a potential financial disaster that could have been averted – if they'd been insured.

A recent QBE business risk report estimates that just 17% of small businesses have policies in place for unexpected disruptions to their operations.

The report puts the low take-up rate down to lack of knowledge and understanding of business interruption cover.

More than 40% of the 501 businesses surveyed by QBE have never heard of the product, 11% are aware it exists but know nothing beyond that, and 23% have a vague idea of how the cover works.

About 46% of business owners cite a lack of understanding for not having a policy, 30% did not think it is relevant to their operations and 29% view it as an unnecessary expense.

Clearly not enough business-owners are taking that moment to consider how they'd cope with an unexpected event that sidelines their business.

“What some small business owners may not understand is that there are options available for worst case scenarios when a business is forced to close operations for an extended period,” the QBE report says.

“Many small and medium businesses overlook it, think they won't need it or assume they have it as part of a business insurance package when they don't.”

Put simply, a business interruption cover helps to protect against loss of future earnings and ensure the continuity of income after an insured entity is forced to stop operations because of an unexpected event.

It could be physical damage to premises, non-physical damages such as road closures restricting access to the business premise and closure of a key supplier.

The cover pays for fixed costs such as rent, utilities and loan repayments when the business is suspended indefinitely.

As your broker, we don't want you to be among the many owners and managers who simply don't know there is a way to protect your business against a disastrous interruption. We can show you how the product works and why it's time to consider having one as part of your risk management strategy.

A business interruption cover may just be the life-saver your business needs when disaster strikes.

Give us a call and let us help you work out a solution that best protects your business.

Cyber risk: the 24/7 danger

In today's wired world, no entity is immune to cyber attacks. And SMEs are every bit as exposed to the danger – if not more so – as their larger business counterparts.

Online attacks can come from anonymous hackers lurking somewhere on the other side of the globe. As a rule, smaller businesses are more vulnerable.

That vulnerability is compounded by the fact that many smaller business owners don't take the dangers they're exposed to seriously enough, which means they're woefully unprepared when the hackers strike.

Small businesses are the target of 43% of all cybercrimes. Yet the Australian Small Business and Family Enterprise Ombudsman says slightly more than a third of SMEs have yet to adopt any form of proactive measures against online breaches.

More than eight out of 10 SMEs still believe the anti-virus software they have in place will provide adequate protection from breaches.

The days of taking a lax attitude on cyber security are over, or shall we say, no longer a viable or tenable option since the implementation of new data protection laws on February 22.

Business owners now risk fines of up to \$2.1 million if they fail to report breaches to affected individuals and inform the Office of the Australian Information Commissioner, the overseer of the Notifiable Data Breaches scheme.

In the first three months since the new regime kicked in, the commissioner was notified of 63 breaches.

The scheme applies to businesses with an annual turnover of at least \$3 million and it is not unusual for SMEs across the country to generate income exceeding that figure.

So what can a small business do should a significant breach, one that involves the loss of personal information that is likely to result in serious harm, occur?

If you suspect an eligible breach has happened and personal data of individuals has been seriously compromised, promptly notify them and the commissioner.

The notification must include the identity and contact details of the entity, description of the breach, kinds of information compromised and recommendations on actions the affected individuals should take in response to the breach.

Clearly, cyber breaches are a menace and in severe cases, they can inflict untold financial and personal miseries. Even worse, the saga can result in your whole business grinding to a complete standstill.

Now is the time to give serious thought to taking out cyber cover to mitigate any risk exposure from a digital breach.

Give us a call and we can work with you to ensure you have cyber cover that best meets your needs.



Hidden threat: cyber criminals target small businesses

Staying warm and safe in winter

Winter weather means it's time to crank up the heating to keep staff and clients warm, but it's important precautions are taken to reduce fire risk and maintain high safety standards.

Internal heating, whether provided through ducted systems or portable units, should be well maintained, and non-electric equipment tested for gas or carbon monoxide leaks that may go undetected until it's too late.

Cardboard boxes and paper should not be stored or allowed to build up near heat sources, while other combustible materials may also pose a hazard.

Portable electric heaters, favoured by many smaller businesses, should be free of dust and monitored in case problems emerge.

Electrical circuits risk becoming overloaded if heaters are added to crowded power boards, particularly as they tend to use more energy than other appliances.

Worn and frayed cords are a clear danger sign and any device showing evidence of overheating or deteriorating performance is ready to be replaced or repaired.

Many fires are attributed to electrical malfunctions



Heat is on: gas appliances can increase fire risk in winter

triggered by running equipment too hard, and it's easy to overlook the likelihood that a heater purchased some years ago might be on its last legs.

In outdoor areas, moveable gas heaters have become ubiquitous in restaurant and entertainment districts, allowing al fresco dining and drinking during cooler days, while also posing specific hazards.

Fire authorities warn the heaters must be correctly stored and maintained and business owners need to be aware of risks from nearby awnings.

The heaters should be used in well-ventilated outdoor areas and on stable, level ground, instructions that show required clearances must be observed and gas cylinders stored outdoors in a secure location.

Some businesses find it's worth switching to fixed natural gas heaters that offer a safer option in busy environments where customers can create problems by moving or adjusting equipment.

Wood heaters are popular in some locations and rural and regional tourism operators often promote the pleasures of an open fire. But they

require extra vigilance. Chimneys should be cleaned and care taken so burning wood doesn't roll from fireplaces as embers subside.

So please think about this. Keeping warm during the coldest part of the year can lead to unfortunate injuries and claims when things go wrong, and gas and open fires in particular are a source of many problems.

Whatever your choice of heating, speak with us to ensure you have all the risks covered through adequate alarm systems, risk reduction and insurance cover.

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