



Insurance

It takes a lot of courage to go into business on your own. You must be prepared to take chances, but that does not mean you have to take unnecessary risks. Taking out the right insurance is a smart move to secure the ongoing operation of your business.

Insurance for Your Business Needs

You often don't want to consider worst case scenarios when planning to establish your business. However, that is the purpose of insurance; to protect you against worst case scenarios so you can place your efforts in building your business.

There are many types of insurance policies for small businesses, though few businesses will need all the policy types available.

You may wish to use the services of an insurance broker. They have access to most insurance companies' products and understand the needs of small business. For a small fee, an insurance broker can find the right policy that most suits your needs.

Evaluating the Policy

Disclose to the insurer everything about your business that may be relevant and keep this information up to date. Otherwise your policy may not be valid.

Before you enter into an insurance policy, make sure you:

- **Compare policies** - get at least three quotes. Compare insurance premiums as well as any no-claim bonuses or discounts available;
- **Check what is and what is not covered** - look at the wording and definitions;
- **Are you under-insured?** It is very important that you insure your assets for their replacement value in today's prices. If you are not sure of the replacement cost, you may need the services of a qualified valuer to establish what your assets are worth.
- **Do you understand the term co-insurance?** You are deemed to be co-insured to the extent that the risk is under-insured.

That is, you will only be compensated for a proportion of the total loss.

- **When does your protection commence?** That is immediate cover or otherwise.
- **Conditions of insurance** – note particular activities relating to the nature of your business. Are these activities excluded from the policy?
- **Check the claims procedures** - can you rely on straightforward and prompt service? Ask other similar businesses what has been their experience;
- **Do you understand the terms of a replacement policy?** A replacement policy aims to replace or restore property as new. These policies often have an upper limit on the amount payable.
- **Renewal conditions** - are increases in value built in the policy or do you have to declare any appreciation in asset value?
- **Reputation** – Look at the insurance company's track record and whether it is well established. Are they prepared to discuss with you your insurance needs without undue pressure to buy?

Insurance Policies

Basically business insurance can be divided into one of four categories according to how they affect the business. These categories are assets, liability, revenue and personnel.

Before you choose an insurance policy, you will need to identify your business's assets, liabilities, revenue and personnel to evaluate your business' insurance needs. Some common types of insurance policies are listed over the page.

Small Business Pack - is a typical composite policy for small business which usually covers fire and other perils, theft

and loss of money, burglary, electrical and mechanical breakdown, public liability and product liability.

Fire and Other Perils - is designed to cover the building, contents and stock of the business against perils such as fire, earthquake, lightning, storms, impact, malicious damage and explosion.

Business Interruption or Loss of Profits - provides cover if the business is interrupted through damage to property by fire or other insured perils. It ensures that anticipated net profit is maintained, pays employee wages and pays additional working costs if alternative facilities have to be used. Payment of a claim under this policy is, however, conditional on the insured re-establishing the business.

Burglary - covers theft of property and damage from burglars breaking in. It does not cover theft by shoplifter or staff and you cannot claim for inconvenience caused or profits lost due to burglary.

Workers Compensation - is compulsory for all businesses employing staff. Workers compensation insures employees against injury or death caused in the workplace. The workers compensation system in NSW is administered by WorkCover.

Personal Accident or Sickness - if you are self-employed or a subcontractor, you are not covered by workers compensation insurance. It is particularly important for you to provide yourself with funds to compensate for loss of income because of illness or accident.

Fidelity Guarantee - covers losses resulting from misappropriation by employees who handle goods or cash (eg embezzling or stealing).

Money - covers loss of money being taken to and from the bank and whilst on your premises. It can be extended to cover money taken home overnight or deposited in a bank night safe.

Public Liability - covers your legal liability for compensation if someone who is not an employee or a family member (third party) suffers injury, damage to property or death as a result of your business operations, should you be negligent.

Electronic Equipment Insurance for Computers - is designed to cover sudden and unforeseen loss or damage. It does not cover the cost of preventative mechanical maintenance or general wear and tear.

Machinery Breakdown - is designed to cover breakdown of all mechanical and electrical plant and machinery at the work site. The policy can usually be extended to cover spoilage of foodstuffs consequent of such a breakdown.

Superannuation - it is compulsory to provide for employees' superannuation. The minimum level of contribution is 9% of employees' gross income.

Professional Indemnity – protect you from legal action taken for losses incurred as a result of following your advice. This insurance is not cheap, but it could be critical for business people who work as consultants, provide professional advice or who set themselves up as experts.

Product Liability - covers the damage/injury caused to another business and/or person by the failure of your product or a product you are selling. You may also be held responsible for products that are either modified by you, form part of another product or are imported by you. It is advisable to seek advice in regards to this insurance policy, as you may in some cases be able to have your public liability policy endorsed to also cover product liability.

Partnership - it is wise for all partners to consider insurance on one another's lives. The purpose of this type of insurance is to give the surviving partner protection against the demands of the deceased partner's estate.

For More Information:

Contact your local Business Advisory Service on 1300 650 058 to talk over business management issues or visit the Department of State and Regional Development's Small Business Website at www.smallbiz.nsw.gov.au.