

## BUYING INSURANCE FOR YOUR BUSINESS

### PURPOSE OF INSURANCE

#### Reasons for Buying Insurance

Almost all businesses buy insurance, but the type and amount of insurance cover purchased will vary according to the risk profile and risk appetite of the business. One business may decide to buy only a limited amount of insurance because it is willing to carry most of the risk itself, whilst another will choose to purchase considerable insurance. Such decisions form part of the overall process of risk management.

Insurance is a contract whereby an insurer promises to pay the insured a sum of money if one of a series of specified events occurs in the future. Businesses buy insurance to protect their assets and income streams; to protect the assets of directors and officers of the company; to pay compensation to third parties in the event of a claim against the company; and, in certain circumstances, because it is a legal obligation.

These reasons can be conveniently grouped under three headings:

- Protecting Legal and Contractual Obligations
  - Mandatory, for example, Employers' Liability and Third-Party Motor
  - Required for your trade or profession, for example, Professional Indemnity
  - Demanded by your customers or suppliers, for example, Public Liability
- Protecting Balance Sheet-Asset Protection / Profit and Loss Protection
  - Protect the Balance Sheet if a major event occurs, for example, a fire or flood
  - Relieve pressure on cash flow and reduce volatility in the event of a loss
  - Provisioning for losses, for example, vehicle accidents or stolen plant / machinery
- Providing Employee Benefit
  - Funding of an employment benefit, such as Group Health insurance/term insurance
  - Protection of personal assets, for example, Directors' and Officers' Liability
  - Protection of the business in the event of the death of a key member of staff

#### Insurance Contracts

The insurance policy should explain the terms and conditions of the contract simply and clearly. It should be issued before the inception date and provide evidence of insurance cover. There is usually a separate schedule attached to the policy containing more specific information about the insurance contract.

Insurance contracts are contracts of utmost good faith and so the information that you provide must be full and accurate. If you fail to mention or deliberately conceal a material fact, the insurer has the right to deny coverage and refuse to pay any subsequent claims. If the non-disclosure is deliberate and discovered when you make a claim, it may be treated as fraud. A material fact is anything that would influence the insurer in deciding whether to offer insurance cover, fixing the premium or setting the policy terms and conditions.

Please visit the page contains key insurance terms and concepts (Glossary) that will help you understand the jargon used in your insurance policies. As with all contracts, you should pay attention to the small

print. It is one of the responsibilities of your insurance broker to help you understand the potential impact of the small print in your insurance contract.

It is usual for insurance policies to offer cover only in specified circumstances. So if you have a loss, you will only have insurance cover if the policy specifically includes the circumstances that gave rise to the loss. The alternative is an 'All Risks' policy in which all circumstances that could give rise to losses are included, unless specifically mentioned in the exclusions section of the policy. These exclusions need to be evaluated in detail, so that you can be certain that you are willing to accept them.

### **Starting the Process**

The starting point for buying insurance is to identify what risks your business faces and whether these risks could give rise to a significant loss. Such an exercise will enable you to identify those risks that are significant to your business. You should then evaluate the control measures that you currently have in place to minimise the likelihood and/or consequences of a loss. You may be confident that a particular risk will not materialise or, if it does, it will not cause a serious problem.

In that case, you may decide to buy only limited insurance for that risk or even none at all, unless that type of cover is either a legal obligation or a requirement of your customers. Unless you are obliged or required to buy insurance, it is up to you to decide whether to buy insurance and what limit of indemnity is appropriate. For example, you may decide not to buy Business Interruption insurance because you believe that a fire in your premises would not cause you undue disruption. Alternatively, you may decide to buy a specific limit of Professional Indemnity cover because it is in line with the other members of your trade association or it is the amount specified by your customers.

Businesses often go for the compromise solution of buying insurance but accepting a high deductible (or excess). This means you pay a smaller premium, but have to meet a large proportion of any loss that occurs. Rather than making such decisions on your own, you may prefer to take advice from an insurance broker. Also, a broker can save you time by identifying the best insurer for your business, advising you on what type of cover is most appropriate and presenting information about your company to potential insurers. This information should include details of your existing risk management practices so that the insurer can decide whether to offer you cover and how much premium to charge.

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