

Business insurance a practical guide

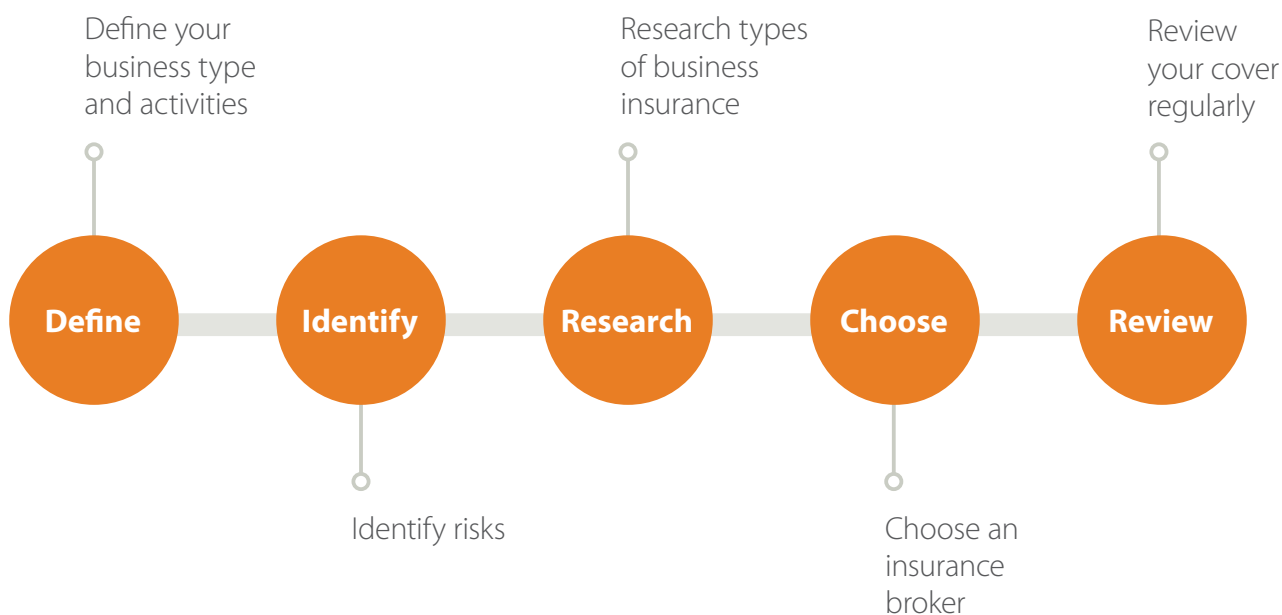


A practical guide to business insurance

Insurance for your business is important to cover unexpected events such as loss or damage to your property, legal claims and workplace injuries. Obtaining the right business insurance is an important part of establishing a reputable and sustainable business, and minimising risk. Without it you may be unable to trade or have large out-of-pocket expenses, which could result in having to close your business.

Your type of business and daily activities will determine the insurance cover needed. From a financial perspective it's important to research the types of insurance required so these costs can be included in your overall budget.

Business insurance pathway



Define your business type and activities

It's important to clearly define your type of business and daily activities as these will influence the types and level of insurance cover you need. An insurance policy that meets your business needs will protect against a range of unforeseen events, such as an office or factory fire, theft or storm damage.

The following table provides an overview of some of the most common types of insurance – use it as a guide in relation to your own business.

	Personal accident and sickness, loss of revenue	Workers' compensation	Property and assets	Professional indemnity/public liability	Product liability	Third party personal injury and vehicles
Consultancy business	Yes	Yes (only required if you employ staff)	Yes	Yes	No	No
Business selling, supplying, delivering products	Yes	Yes (only required if you employ staff)	Yes	Yes	Yes	Yes, if using vehicles
Hospitality business	Yes	Yes (only required if you employ staff)	Yes	Yes	No	Yes, if using vehicles
Transport business	Yes	Yes (only required if you employ staff)	Yes	Yes	No	Yes
Independent contractors	Yes	Yes (only required if you employ staff)	Yes	Yes	No	Yes, if using vehicles

Information you need to supply

The more information you provide to insurance companies about your business activities the better. This will enable them to tailor a package to suit your specific needs, and could include:

- type of business
- estimated annual turnover
- number of people working in the business (including you)
- full contact details of the business, including ABN

Identifying risks

It's important to identify areas of your business that would be heavily impacted if a 'worst-case' event occurred. This will assist you in deciding which insurance policies are most relevant for your business.

When conducting a risk assessment, ask yourself:

- What risks could negatively impact my business?
- What is the likelihood of each risk?
- What are the consequences of each risk?

Use the three steps below to help identify your business risks.

Step 1: Define the risk context

Identify where or under what circumstances risks

could occur. For example, at a particular worksite, department, work section, retail shop branch, or after severe weather. (A restaurant owner would identify their kitchen as a place where risks could occur.)

Step 2: Risk identification

Identify particular risks in each area of your business by systematically working through each function, activity or stage of your operations and note what could happen at each point. Brainstorm with your employees to get a broader view of potential risks. (Within the kitchen, the restaurant owner sees employees burning themselves on the deep fryer as a potential risk.)

Identifying risks (continued)

Step 3: Risk assessment

Once you've identified the risks that could apply to your business, use the risk assessment matrix below to assess the likelihood of each risk occurring against the most probable consequence if it does happen. (Because safety equipment is installed, the risk of an employee burning themselves on the deep fryer is unlikely, but the consequences would be serious if it did happen. This means it's a medium risk.)

Completing a risk assessment will help you determine the best strategies to mitigate each risk and the type of insurance you are likely to need. For example, if you operate as a sole trader and become too unwell to run your business, what will you do? One option is to train employees or contractors to help in the business, or you could take out income protection insurance.

Assessing the risk in your business

Consequences	Likelihood			
	Very likely (almost certain to happen)	Likely (will probably happen at some time)	Unlikely (could happen at some time)	Very unlikely (might happen rarely)
Major (eg. death, disability, large financial loss)	Extreme risk	High risk	High risk	Medium risk
Serious (eg. serious injury, cash flow shortage)	High risk	High risk	Medium risk	Medium risk
Minor (eg. first aid injury, temporary supply shortage)	High risk	Medium risk	Medium risk	Low risk
Insignificant (eg. an incident without injuries, non-essential staff ill)	Medium risk	Medium risk	Low risk	Low risk

Researching business insurance

In Western Australia it's compulsory for small business owners to have workers' compensation insurance and motor vehicle third party personal insurance, which is included in the cost of your motor vehicle licence.

Insurance can be divided into protection for three main categories: assets and revenue, liability, and personal and workers.

Assets and revenue insurance

This insurance covers the loss, damage or theft

of your business assets or revenue, such as:

- building and contents
- glass breakage
- motor vehicle
- fire and other damage
- equipment breakdown
- goods in transit
- fraud and dishonesty
- money
- theft
- business interruption

Liability insurance

You may be responsible for damage or injuries to another person or property caused by your business activities. Liability insurance can minimise the impact on your business.

Typical cover includes:

- public liability
- professional indemnity
- products liability

Personal and workers insurance

It's important to ensure you have insurance to cover the costs of an unexpected illness, injury or accident including:

- workers' compensation insurance
- personal accident, illness and life insurance
- income protection insurance

Based on your business type, activities, and industry, it's your decision as to what other insurance you may need. Keep in mind that many insurance companies will require you to have business registrations and licences in place before they agree to provide insurance.

Many insurance companies will provide policy packages specifically for small businesses. If you employ staff you should check if workers' compensation insurance is included.

You can receive significant financial penalties from WorkCover WA if you don't have the correct insurance for your staff.

Types of insurance explained

Workers' compensation

If you employ staff you must have workers' compensation insurance to provide cover for their death, injury or illness caused during the course of their employment. This needs to be in place before your first employee starts work.

Obtain quotes from a number of companies and ensure they are all based on the same information.

The term 'worker' is very broad; it includes full-time, part-time, casual and seasonal workers; apprentices and trainees; and some contractors and subcontractors.

If you are a sole trader or partner you are responsible for the liabilities of your business and you are not covered by workers' compensation insurance. In the event of an illness or accident you may not be able to work and earn income.

Workers' compensation cover for working directors of proprietary companies is optional. If you are an employee of your own proprietary company, you will need to specifically request that your workers' compensation insurance also covers you.

A list of insurance companies approved to underwrite workers' compensation insurance in WA is available from workcover.wa.gov.au

Personal accident and sickness

This will compensate you for loss of income if you have an accident or suffer an illness that prevents you from working. This is especially useful for independent contractors who may not be entitled to workers' compensation.

Revenue

Also called 'consequential loss' or 'business interruption insurance', revenue insurance helps cover a business for reduced profits caused by interruptions like fire, flood, accident, burglary or major computer failure.



Researching business insurance (continued)

Property and assets insurance

Whatever the scale of your business, insuring fixed assets (eg. premises, products, vehicles, equipment) will help you to continue operating if they're damaged, stolen or destroyed.

Property and assets insurance includes:

- **Premises**

Whether your business operates from a factory, warehouse, shop or your home, if you own the premises it's likely to be your single largest business asset. A variety of policies can help protect your premises against hazards like fire, storms, wind or water damage, explosions and vandalism.

- **Contents and equipment**

This cover can help you replace vital business equipment (such as computer systems, manufacturing equipment or tools) quickly and with minimal disruption to trade.

- **Goods in transit**

If your business involves transporting goods you should consider insuring against damage that may occur once the product leaves your control and is in transit.

Avoid any indemnity clauses in a lease that require you to compensate the landlord in the event of any loss, unlawful act or damage. These clauses can breach your insurance policy.

Discuss any insurance clauses with your insurer in detail, before agreeing to them.

Professional indemnity

This protects professionals against negligence claims made by clients. It covers the costs and expenses of defending a legal claim and any damages payable.

Professional contractors are often required to hold professional indemnity insurance if working with government bodies, local authorities or private consulting firms.

Public liability

This is important for businesses that interact face-to-face with customers. It covers your potential liabilities to third parties for personal injury or property damage if you or your business is found to be negligent. If your business requires your customers or the general public to visit your premises, or for you to visit their premises, consider taking out public liability insurance. You will also need it if taking part in expos.

Product liability

If your business sells, supplies or delivers goods, even in the form of repairs or maintenance, you may need cover against claims of the goods causing injury, death or damage. Product liability insurance covers you if any of these events happen to another business or person through the failure of your product or the product you are selling.

Vehicle insurance for business

If your business uses motor vehicles it's compulsory to insure them for third party injury liability. Policy costs depend on the type of vehicles you use, the goods they carry, and the frequency and type of use. For example, businesses transporting dangerous goods require a very different policy compared with document couriers. Make sure your policy covers commercial/business use.

Cyber liability

If you collect any kind of personal data that could be stolen by hackers, especially as an online business, you will need to look at cyber liability insurance.

Burglary

If you have property or stock that someone could steal it should be covered by a burglary policy. If relevant for your business, you need to make sure there are no exclusions for items such as liquor or cigarettes. You also need to check limits on cover and any requirements in relation to forced entry.

Not all insurance types will be applicable to your situation. An insurance broker can help you accurately assess the risks of your business and buy the right insurance to meet your needs.

Choosing an insurance broker

Insurance cover can be arranged through an insurance company, an agent acting on behalf of an insurance company, or an insurance broker. Insurance brokers are required by law to act as your representatives and work in your interest, whereas insurance agents are acting in the interests of the insurance companies.

You can contact a broker through the National Insurance Brokers Association or the Insurance Brokers Network of Australia.

If you want to liaise directly with an insurance company, the Insurance Council of Australia provides insurance information and contact details of its members.

needabroker.com.au

ibna.com.au

insurancecouncil.com.au

As with any purchasing decision, you are advised to shop around and compare prices, service and reputation.

- Check what is covered and what is excluded.
- What do you need to do so that the policy remains valid, for example, do you have to install locks on windows?
- Check online forms for discussions about the payout performance of particular insurance companies being reviewed.

Be aware that home insurance generally doesn't cover a business operating from home. For example, if you are storing stock in your home and it's damaged by fire, you may not be reimbursed. Discuss your home and business insurance needs with your insurer.

- Consider the excess on the policy. An excess is set by insurance companies to reduce the number of minor claims. The larger the excess, the lower your premium will be.

Complaints resolution

If you have a dispute with your insurer, contact the Financial Ombudsman Service for assistance.

The Australian Prudential Regulation Authority can also be contacted regarding issues or disputes relating to insurance.

fos.org.au

apra.gov.au

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Insurance is a complex area. Make sure you understand all the terms and conditions of the contract before you sign.



Reviewing your insurance

It is your responsibility to let your insurer know if there are any changes relating to the circumstances or conditions of your business. If you do not disclose changes that have occurred since you originally took out the policy, payouts for any claims may be reduced, or the contract may be cancelled. Notify your insurer immediately of any variations.

Always obtain a cover note if there is a risk of trading without a policy being issued in time.

For further information on insurance matters call one of our advisers on **13 12 49**.

You should review your insurance cover:

- annually, before renewal
- when assets are acquired or disposed of
- when important changes occur in the business

Visit smallbusiness.wa.gov.au for more information or contact one of our business advisers on 13 12 49.

Sign up for our monthly e-news via our website homepage and follow us on [facebook.com/smallbusinesswa](https://www.facebook.com/smallbusinesswa) to receive handy hints and tips on running your business.

We also encourage you to join thousands of WA business owners in our Facebook group '[I'm a small business owner in Western Australia](#)' – the perfect place to ask questions and share ideas with your peers.

Note: This information is not a substitute for legal advice.

13 12 49

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