

Insurance

Why do I need insurance?

Small business can sometimes be risky business, particularly in today's competitive business climate. As a small business operator you have to be prepared to take risks, but there are things you can do to minimise those risks and maximise your chances of success. Business planning is one way to reduce the risk factor and taking out comprehensive insurance is another.

Being uninsured, under-insured or having the wrong kind of insurance can close your business down in the case of fire, staff or customer injury, personal illness, product defects or errors by your staff in carrying out their work. The right insurance can keep these losses to a manageable level and safeguard your business' future success.

What's the best insurance for my business?

Your business lender may require you to have certain types of insurance for borrowing money. They can tell you exactly what these basic requirements are.

The insurance checklist below will give you a general idea of the cover provided by different types of policies commonly used by small businesses. Your business may only need a selection of these. However insurance requirements vary considerably and if your business is in a specialist industry, you could need others that are not listed below.

- **Fire** – to protect your principal assets including buildings, contents and stock.
- **Business interruption** – depending on your insurer, this can cover risks such as loss of profit, ongoing staff costs and additional operating costs that may be incurred as a result of a peril (such as a fire). If you take out this insurance, consider asking for cover that pays for restoring your financial records in the event that they are destroyed. This will enable you to justify the amount of profit that you have lost due to the peril. There is no point insuring against loss of profit if your business is not making a profit. In this situation, it may still be wise to have some business interruption insurance so that (for example) you can continue to pay staff while they help you re-establish your business.
- **Public liability** – covers your potential liabilities to third parties for personal injury or damage to property if you are negligent.
- **Employees liability** – this includes workers' compensation (Work Cover) which is compulsory for all businesses employing staff.



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There are a number of other policies which, depending on the type of business and industry you are in, may be appropriate for you. These policies cover your business for the following:

- **Burglary** – theft from locked premises.
- **Money** – in transit, on business premises and personal custody.
- **Fidelity** guarantee – fraud or dishonesty committed by employees.
- **Glass** – breakage of fixed external and/or internal glass.
- **Products liability** – if the use of your product causes harm, loss or damage.
- **Professional indemnity** – for negligent acts, errors and omissions.
- **Electronic breakdown** – specialised cover for computers and machinery.
- **General property** – for tools, equipment, mobile phones or stock samples.
- **Marine and transit** - goods being transported by sea, air road or rail.
- **Construction** risks – for builders and trades people.
- **Motor vehicle** – either business or private, singular or fleets of vehicles.
- **Director's and officer's liability** – against alleged breaches of duty.
- **Employment practices liability** – covers damages and costs resulting from (for example) anti-discrimination, unfair dismissal and harassment actions.

What else should you be aware of?

As a business operator and manager, you should also consider protection and financial planning for your family and staff through human resources insurances such as life, keyperson and disability as well as superannuation, succession and investment plans.

Other types of insurance policies you may need to consider include: householders; caravan (on site or in transit); marine hull (pleasure or commercial crafts) and aviation (damage and liability).

There is often misunderstanding on the part of small business operators about those sections of an insurance policy which relate to replacement and asset valuation.

A replacement policy aims to replace or restore property as new. Unless you are aware that these policies may have an upper limit on the amount payable, you could be less insured than you think. Similarly, if you're not sure of the replacement costs of your assets at today's prices, you may also be under-insured.

Who can help?

You have the option to go directly to an insurance company or to an insurance broker. A professional insurance broker can help you make the right insurance choices and put together a comprehensive, cost-effective policy package for your business.

By law, an insurance broker is obliged to represent your interests and can provide valuable information and assistance – particularly if your business is classed as an insurance high risk, such as a fast food shop. The National Insurance Brokers' Association office in Sydney telephone 02 9964 9400 or www.niba.com.au can put you in contact with an appropriate broker.

Your industry association may also be able to provide you with important industry-specific insurance advice. Some associations can even organise insurance package for their members.



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Further information

The following fact sheets provide further information on these issues:

- Professional indemnity insurance
- Risk management

