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Reduce your exposure to losses

Every business is subject to losses from many uncontrolled risks. The risks will vary according to the business' exposure and sometimes its location. One of the ways to protect your business against these risks is to carry sufficient types of insurance to cover against unforeseen events, robbery and fraud. Also focus on your company's former risk management efforts on operational risk exposure. Have a look at the following tips and see if they apply, or can be applied to your business:

- Work out the operational risks in your business activities and put in place strategies to minimise them. For example, businesses that handle large volumes of cash should be aware of the likelihood of crime and take steps to prevent operational loss.
- Prepare to respond quickly to any emergency or disaster. That is, have a plan in place that is followed should something like this arise.
- Develop strategies to minimise the frequency and severity of any of these risks.
- Ensure optimal data security, especially if your business is involved in E-commerce or your systems are highly computerised.

What about pre-operational risks?

The Australian Securities and Investment Commission (ASIC) have advised that many businesses extend considerably large amounts of credit to other businesses and yet have no plans set in place to protect themselves in case the businesses they are dealing with are not genuine. It seems many business operators have very little idea or awareness of the role of simple credit checking, for instance.

Before doing business with another organisation or company it is wise to check with the registers held by the ASIC to find out who is behind the company or business and to do other sensible background checking. It is ludicrous that a business would spend so much money and time on increasing its income and profitability and yet put no effort or cost into ensuring that risks involved with business they deal with are minimised.

If you own a business, it is a good idea to have a detailed discussion about these matters with your accountant and lawyer, to put in place strategies for protecting the business against unscrupulous or shonky operators. Many businesses do not have a plan for reducing their chances of losses in a situation where a customer goes into liquidation or bankruptcy. Too many ignore the standard procedures of putting agreements in writing - they are happy to take the other person's word alone.

If you are going into business, you are taking on a great amount of risk so you need to take action to minimise that risk early on before you even commence operations.

Don't risk being swindled

You can reduce your chances of being swindled by knowing whom you are dealing with. This will help to protect you against getting involved with operators who are con artists, which include those who set up companies, rack up debts and then close up shop, leaving the debts behind them - including the money they owe you. It will also help to protect you from dealing with people who may not be able to pay you what they owe when it is due.



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Here are some steps that you can take to reduce your risk of being burnt early on before you open for business:

- Find out who you are dealing with. Find out if there is a company behind the business name, because there is a big difference between a business operated by people trading under a business name and one operated by a company. Anyone can register a business name, but a company must be registered with the ASIC and therefore has to provide information that any member of the public can have access to.
- Search the database at the ASIC. You can search by telephone (03) 5177 3988, website www.asic.gov.au, or through a local ASIC representative, or other sources such as through your solicitor or accountant etc.

Analyse and use the results. Some of the questions that you will want answered include:

- How long has the company been in business?
- What is the company's status - is it registered, de-registered, or under administration?
- What is the address of the principal place of business - is it a home or an office?
- Who are the directors and company officers - how long have they been with the company, are the officers disqualified for any reason, are any of them bankrupt?
- What is the company's capital - is it a \$2 company, or does it have more capital?
- Who are the members of the company?
- Does the company have overdue annual returns and other paperwork that is required by the ASIC? If this type of documentation is overdue, then it is a good sign that perhaps the systems are not efficient, so care must be taken.
- What are the company's financial details? If it is a small proprietary company, then it does not have to prepare and lodge financial statements, but a larger company or a public company does.
- What other companies have the directors and officers of this company been involved in? If they have been involved in other operations, did they fail or were they successful?
- What is the company's credit rating?
- Is the company a member of an association in their industry?

At the end of the day it is up to you to do your homework and get professional advice if necessary to ensure that all the questions asked are answered, so as to minimise the risk to you and your business

What kinds of exposure should be looked at?

In general, most businesses should address the potential for:

- Property losses
- Business interruption losses
- Liability losses
- Key person losses
- Automobile losses



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Preventing losses

This can be categorised into two groups:

1. Loss control

What can be done to prevent or limit exposure to loss? What techniques can be used to ensure that funds will be available for losses that cannot be avoided or prevented?

One principle of loss prevention and control is the same in business as it is in your personal life - avoid activities that are hazardous. For example, a business may decide not to sell a particular product because it is likely to injure customers. Thereby the firm avoids a product liability exposure. If you cannot avoid an exposure completely, minimise it. Always look to see if the extent of any possible loss can be further reduced.

A business owner may also decide that the firm can afford to absorb some losses, either because the frequency and probability of loss is very low or because the value of the loss is manageable. For example, a firm may own several vehicles. All the drivers have an excellent safety record and exposure to collision etc is low. Because the vehicles are older, their book value has decreased substantially. Rather than pay heavy insurance premiums on the vehicles, the firm decides to carry some of it themselves and insure the rest of the risk.

2. Providing for loss

Another method of managing exposure to loss is by transferring the risk. Most businesses do this by buying insurance, but there are other non-insurance options. For example, a firm may decide to cut its insurance on its vehicles and use a local delivery service for that function or, to reduce exposure to property damage, a retailer may decide to cut its in-store stocks and to handle certain items only on a special order basis. The result will be that stock levels in the store are lowered; therefore, the exposure is lowered.

Further information

The following fact sheets provide further information on these issues:

- Business management tips
- Dealing with fraud in your business
- Examples of business losses
- Insurance
- Professional indemnity insurance
- Risk management