

# Are you underinsured?

## Make sure you have the level of protection you need

Your business is probably one of the most valuable assets you have – so it makes sense to protect it in good times and bad. The major reason why small businesses in Australia fail is inadequate cash flow<sup>1</sup>. That's where having the right level of insurance can make all the difference by helping to ensure your business continues to operate smoothly if the unexpected happens.

## The risk of underinsurance

Unfortunately, 1 in 10 Australian small businesses with insurance don't have enough cover to protect themselves against business disruption, legal liabilities or loss or damage to their assets<sup>2</sup>.

This is referred to as 'underinsurance' and it can greatly increase the risk of a business having to

close down if something goes wrong. So why are so many businesses underinsured?

Some business owners are driven by low premiums and don't take the time to make sure they are adequately protected after an insurable event. As a result, the sum insured may not be enough to cover losses – or the terms of their policy may limit the amount that can be recovered.

It's also common for business owners to underestimate either the reinstatement or replacement costs of their business assets after a damaging event such as a fire or storm. If the sum insured doesn't reflect an up to date reinstatement or replacement cost, the owners will be underinsured and may face substantial out-of-pocket expenses if they need to make a claim.

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<sup>1</sup>ASIC, Insolvency statistics: External administrators' reports (July 2017 to June 2018).

<sup>2</sup>Insurance Council of Australia, Non insurance in the small to medium sized enterprise sector, July 2015.



## The difference insurance can make

Type of cover	Scenario	With insurance	Without insurance
<b>Business Interruption</b>	A dental clinic is severely damaged when part of the ceiling caves in during a major storm. The business is forced to close for two months of repairs.	The owner's Business Interruption insurance can cover the amount of lost income while the business is closed.	The business loses two months of revenue and struggles for weeks afterwards to generate enough profit to make up for the lost income.
<b>Professional Indemnity</b>	An architecture firm provides a flawed design, and the building then needs to be demolished and rebuilt from scratch. The client sues the architect for these costs.	The firm has Professional Indemnity insurance which can cover this amount, plus most legal costs.	The firm can't afford to cover the costs and is forced to go into liquidation.
<b>Property</b>	A community organisation is targeted by vandals, who break a window to enter the building and steal computers.	With Property Insurance cover, the organisation is able to repair the damage and replace the computers with new ones.	The organisation doesn't have enough cash to pay for the repairs and replacement computers and has to close down.
<b>Management Liability</b>	A marketing agency terminates the employment of a worker, on the grounds that he engaged in serious misconduct. He sues for unfair dismissal and is awarded a large payout.	The agency can be covered for the damages and most legal costs by Management Liability insurance.	The directors of the agency have to sell the company to fund the payout.

## How do you know if you are underinsured?

You are at risk of being underinsured if:

- You haven't updated your insurance cover to reflect the growth of your business.
- Your insurance is based on an outdated replacement cost of your business assets.
- You are covered for damage to your business premises but have not considered other forms of financial loss such as business interruption and management liability.

## How can we help?

When you're running a business, sorting out your insurance cover often drops to the bottom of your never ending to-do list. That's where we can help. We do the hard work of reviewing your insurance strategy, adapting your cover as your business changes, and giving you peace of mind that your business is properly insured.

## Contact us today



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