BUYING INSURANCE FOR YOUR BUSINESS

The AIRMIC Guide to the Purchase of Commercial Insurance

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This guide is about purchasing insurance for your business and it also emphasises the importance of good risk management. Purchasing appropriate insurance cover is an essential part of successful business planning. Doing it well will save you money and help safeguard your business.

This guide describes how to identify the insurance you need and how to buy it cost-effectively. It will help you avoid the potential pitfalls without consuming too much of your time. Also, it discusses the role of the insurance broker / agent, together with what you can expect from your insurance carrier and what they will expect from you.

Contents of this AIRMIC Guide

1. PURPOSE OF INSURANCE

1.1 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 circumstance, because it is a legal obligation.

These reasons can be conveniently grouped under three headings:

- 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
- Balance Sheet / 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
    - Budget for losses, for example, vehicle accidents or stolen plant / machinery
- Employee Benefit / Protection of Employee Assets
    - Funding of an employment benefit, for example, Private Health 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

1.2 Insurance Contracts

The insurance policy should explain the terms and conditions of the contract simply and clearly. It should be issued before the inception (start) 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.

The Appendix to this guide provides information on the key insurance terms and concepts that you may come across. They 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 / adviser 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.

1.3 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. Section 2.3 provides a means of undertaking such an assessment, although other approaches are also valid. 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 / adviser. 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.

2. RISK MANAGEMENT AND INSURANCE

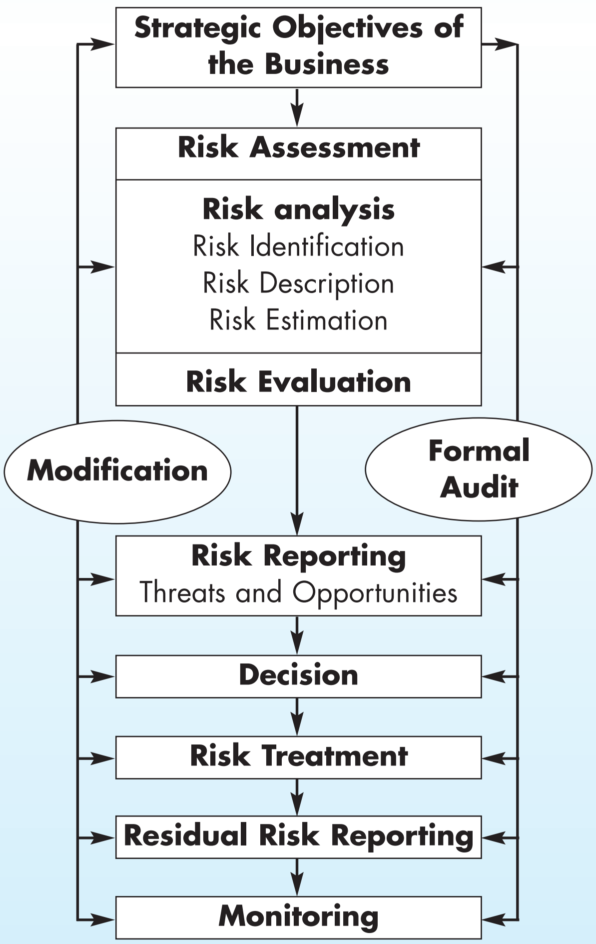
2.1 Risk Management Approach

Your insurance company may charge you less if the insurer believes you have taken steps to minimise the number and potential size of claims. This is one potentially significant reward for good risk management.

Risk management is the identification, measurement and economic control of the risks that threaten the assets and earnings of a business. A risk is defined as the peril or hazard that is covered by the insurance policy. You need to decide whether you have adequate controls in place to manage the significant risks that your business faces. You will also need to consider whether you could cost-effectively do more to control risks, including evaluation of your health and safety standards and assessment of measures in place to protect your property against theft and fire.

Before looking in detail at the different types of insurance, it is worth considering the vital role of risk management. A good starting point is the Risk Management Standard, available from www.airmic.com. Also, the Institute of Risk Management offers a range of training courses: www.theirm.org

The diagram illustrates the key stages of the risk management process. Adopting a risk management approach will protect your business, add value to the business and support achievement of your objectives by:



- Providing a framework that enables future activity to take place in a consistent and controlled manner
- Improving decision-making, planning and prioritisation by comprehensive and structured understanding of the threats to your business activities
- Contributing to the more efficient allocation and use of capital and resources
- Reducing volatility in the non-essential areas of the business
- Protecting and enhancing assets and company image
- Developing and supporting people and knowledge base, and
- Optimising operational efficiency within your business.

Adopting the risk management approach will help you concentrate on reducing the likelihood and consequences of a loss, as well as evaluate what you can do to minimise the extent of damage and the cost of disruption. Business continuity planning of this type is a key part of the risk management process, and you should carefully consider how you would continue your business processes after a serious loss that causes disruption to normal operations. Adequate training of staff and periodic practice of the business continuity procedures is essential.

In relation to those risks that can be insured, the intention of risk management is to reduce the potential for insurance claims and ensure that the impact of any losses that do occur are kept to a minimum. Among the many compelling reasons for putting good loss control arrangements in place is that this will make you more attractive to insurance companies, thereby potentially increasing the choice of cover and, hopefully, reducing the cost.

2.2 Types of Insurance Policies

Section 2.3 includes a list of insurance policies that you may need to consider buying. Remember that commercial or marketplace risks are usually not insurable. These risks include changes in the competitive marketplace, changes in demand for a service or product and changes in relevant regulations. Also, the impact of events that cause damage to the reputation of your business is generally not insurable. Finally, failure to recruit skilled staff and errors in production are usually considered to be commercial risks and outside the scope of available insurance policies.

Nevertheless, insurance cover is available for a wide range of risks and perils faced by your business.
For convenience, they are considered using the three headings set out in section 1.1 of this guide:

- Legal and Contractual Obligations
- Balance Sheet / Profit and Loss Protection
- Employee Benefit / Protection of Employee Assets

Legal and Contractual Obligations

Your business will need to purchase certain types of insurance policies because they are required by law, or because they are demanded by customers, business associates, your bank or your landlord. The most important examples of these insurances are:

Employers' Liability

- Employers' Liability Insurance (EL) insurance cover enables businesses to meet the cost of compensation claims (and the associated legal fees) from employees who are injured or become ill at work through the fault of the employer. Employees injured due to the negligence of their employer can seek compensation even after the business goes into liquidation or receivership. You will sometimes see EL insurance referred to as Employers' Liability Compulsory Insurance or ELCI. A growing number of EL insurers offer policies that provide rehabilitation options, so that injured or sick staff can return to work sooner, and significantly reduce absenteeism. More information is available on the AIRMIC website at: www.airmic.com/rehabilitation-guides.asp

Public Liability

- If members of the public or customers come onto your premises or you undertake business activities at customer premises, you should think about buying Public Liability (PL) insurance. This type of insurance covers any award of damages to a member of the public or other businesses because of an injury or damage to their property caused by you or your business activities. As with EL cover, PL insurance also covers any related legal fees, costs and expenses. You may need to consider your public liability risks very carefully if your business employs home workers who are not your employees. The advice of your insurance broker may be essential.

Product Liability

- In Product Liability insurance, a product is defined as any physical item that is sold or given away. Products must be 'fit for purpose' and you are legally responsible for any damage or injury that is caused by the products that you supply. If you directly sell, give away or otherwise supply a product and something goes wrong with it, claimants are likely to try to claim first from you as the supplier, even if you did not manufacture the product. It is important to note that if you import products into the European Union (EU), you will probably not be able to reclaim the cost of insurance claims from a manufacturer based outside the EU. In these circumstances, you will have to pay the compensation.

Professional Indemnity

- If you are in the business of providing professional advice to your customers, you may want to consider taking out Professional Indemnity (PI) insurance. This protects your business against the payment of compensation to a client who alleges that you made mistakes or were negligent in the advice that you provided. PI will also cover the associated legal costs. You may need PI cover even if the advice that you give is incidental to your main business activities, including, for example, design work undertaken as part of preparing a quotation.

Balance Sheet / Profit and Loss Protection

Some events would be very serious for your business if they were to materialise, either by hitting your balance sheet or impacting your profit and loss account more than you are willing to tolerate. These events and the associated insurances are likely to relate to the property, plant, machinery and other assets of the business. In most cases, the purchase of these insurances will not be required by a third party.

Business Premises

- Your business premises are vulnerable to a range of adverse events. These include fire, explosion, malicious damage, storm, flood and damage caused by impact of vehicles. If you are a tenant, confirm with your landlord whether they are responsible for insuring the premises. Then check that the lease is consistent with the answer that you receive. Note that there may be additional specific insurance requirements placed on you by your landlord in respect of the liability classes of insurance.

Contents Insurance

- Premises insurance only covers the physical building, so you will need to evaluate your requirements for separate insurance arrangements for stock, machinery and contents. You will have the choice of insurance either on the basis of replacement as new, or on the basis of indemnity insurance. Indemnity cover is cheaper, but you will receive less in the event of a loss, because the insurer will take wear and tear into account when settling the claim.

Business Interruption

– You can purchase a Business Interruption policy that insures against loss of profit and increase in cost of working / higher overheads resulting from, for example, fire, storm damage or machinery breakdown. Most Business Interruption policies will include increased cost of operation to provide reimbursement for additional expenditure incurred by you in order to fulfil customer orders following an insured event. You will need to identify the extra costs that could arise and also determine how long it will take you to get back to business as usual. Finally, you will also need to think about whether all of your customers will return immediately when you get back to normal operation. Losses can seriously disrupt cashflow, and your insurance arrangements will need to provide appropriate protection.

Assets Protection

- Depending on the nature, size and complexity of your business, you may decide to purchase specialist types of insurance, including:

  - Loss of cash – cover for loss of money, in transit or from business premises
  - Goods in transit – covers goods against damage while being transported
  - Credit – cover against debtors unable to pay as a result of bankruptcy
  - Fidelity guarantee – loss of money or stock resulting from staff dishonesty / theft
  - Engineering – specialist cover for machinery, including computers

Although it is strictly speaking a liability class of insurance, you should be aware that it is a legal requirement for some types of machinery, such as lifting equipment, boilers and pressure vessels to be inspected regularly. A specialist insurer will be able to tell you if this applies to your plant and machinery and can usually arrange for the necessary inspections to be undertaken.

Motor Insurance

- By law, any vehicle used on the road or other public place must have Third-Party Motor insurance. If you, your employees or other parties acting on your behalf use a vehicle in connection with your business, you should check that:

  - Any personal vehicle insurance that you have covers business use
  - Employee vehicles have their insurance extended to cover business use
  - Vehicles owned by your business are covered by appropriate insurance

Terrorism

- Businesses in Great Britain can purchase terrorism cover for property and business interruption through the Pool Re scheme, which is backed by the Government. This terrorism cover can only be purchased as an extension of existing Property Damage / Business Interruption policies and not on a stand-alone basis. Your insurance broker will be able to provide you with more information.

Employee Benefit / Protection of Employee Assets

Providing injury, illness or death insurance to staff is a valued benefit that can help you to recruit and retain the right people, whilst protecting the business. Health insurance for your employees will facilitate early intervention in any illness, which should help reduce absence and save money for the business.

Life and Health

- Life and Health insurance can often be relatively low cost and highly attractive to employees, as an employee benefit. The precise terminology used to describe the different types of Life and Health insurance may vary, but the following options should be considered:

  - Life – pays out lump sum / regular income on death of the life insured
  - Critical Illness – provides cover following diagnosis of a serious disease
  - Income Protection – pays regular income following illness or injury
  - Private Medical – covers the cost of private medical care
  - Permanent Health – provides benefits in the event of prolonged illness or disability
  - Personal Accident – pays fixed benefits in the event of death or loss of limb or sight
  - Travel – covers employees travelling and working aboard.

Loss of a Key Person

- If your business relies heavily on one or two members of staff, there could be serious consequences if they become ill or die. Small businesses in particular often depend on a key person for generating sales, managing a vital client or providing core expertise. You can purchase Key Man insurance, which makes a payout in the event of his or her death. In any case, this type of cover may be required by your bank or financier. Critical Illness insurance would respond in the event of serious disease or illness.

Directors' and Officers' Liability

- Directors and officers of companies can be held responsible for a range of issues, including data protection, fraud, negligence, as well as health and safety. Directors' and Officers' Liability (D&O) insurance pays the cost of defending lawsuits and any compensation that may be awarded. There may be restrictions on the scope of D&O insurance cover that you can purchase, because of the limitations and restrictions in the Companies Act and the exclusions found in many D&O policies. Your insurance broker will be able to provide you with more information.

2.3 Insurance Needs Assessment

The table below is designed to help you decide which types of insurance cover you are required to buy or may wish to buy. For small businesses, there will often be the option of purchasing combined policies that cover two or more different types of policies, which can sometimes be purchased on an 'All Risks' basis.

The table indicates that certain types of insurance policies are mandatory. In other cases, it is recommended that you purchase the type of insurance cover being described. Other insurances are for you to evaluate by considering the nature, size and complexity of your business. The final category of insurance policies is the Life and Health insurances, and these can be considered as optional staff benefits. These descriptions are broad indications only, and it is for your and your insurance broker to make the final decisions on the range of insurance policies that you will buy.

Feature of the Business	Insurance Requirement
1. Business has employees	Employers' Liability – Mandatory This ensures that you will be able to meet the cost of compensation for injuries to your employees. Employment Practices Liability – Optional Covers the potential for unfair dismissal or discrimination claims.
2. Employees travel outside the UK in the course of employment	Employee Business Travel – Recommended If your employees travel abroad, you should ensure that they are protected and that the policy covers the destination and all the countries visited during any journey.
3. Members of the public could be affected by the busines activities	Public Liability – Recommended This covers your legal liability to pay damages to third parties for death, bodily injury or damage to their property caused by your business activities. Sometimes specific extensions to cover are appropriate, such as pollution risk and hazardous activities cover.

4. Business supplies products or components to customers	Product Liability – Recommended This covers your liability to pay damages to customers for death, bodily injury or damage to their property caused by faulty products. Legal expenses are an important part of this cover, although a specific extension may be required. Product Recall – Evaluate This provides coverage for the costs of recalling a product known, or suspected to be, defective. Coverage may also be available for costs associated with issuing product warnings or taking other remedial actions. In some circumstances, it may be a requirement of your customers.
5. Business provides professional or design advice to customers	Professional Indemnity – Recommended Protects professional businesses against their legal liability towards third parties for injury, loss or damage arising from negligent professional advice.
6. Theft or dishonesty by employees could be a problem	Fidelity Guarantee – Evaluate Fidelity guarantee covers you against loss of money or stock arising from dishonesty by your employees.
7. Business occupies business premises	Premises Insurance – Recommended Your business premises should be insured for the full rebuilding cost (including professional fees and cost of site clearance) and not just the market value. This may be a landlord responsibility. If you work from home, you should ensure that your domestic House insurance provides your business with the required cover.
8. Premises has machinery stock or other contents	Contents Cover – Recommended Stock should be insured for its cost price without any addition for profit. Allowance should be made for seasonal stock fluctuations. Plant and machinery can be insured either on the basis of replacement as new or indemnity basis. Wear and tear is taken into account when settling any claims in the latter case.
9. Business depends on reliable operation of machinery or computers	Engineering Insurance – Recommended Engineering insurance provides cover against electrical or mechanical breakdown for most machinery, including computers. Statutory Examination and Test – Mandatory Certain items of equipment require mandatory examination and test, and these inspections will be part of the service provided by an Engineering insurance policy.
10. Business could be disrupted by fire, flood or denial of access to premises	Business Interruption – Recommended Business Interruption insurance compensates you for the shortfall in gross profit and pays any increased working costs and fees following disruption to your business after an insured loss.

11. Business is involved in transporting goods or products

Goods in Transit – Recommended
Goods in Transit insurance provides cover against loss or damage while in your vehicle or when sent by carrier. The sum insured may be a limit for each vehicle or any one consignment. Special arrangements should be put in place for cash transit.

12. Business operates motor vehicles on public roads or requires staff to use their own vehicles

Motor – Mandatory for Third Party
You are legally required to insure your legal liability for injury to third parties and damage to their property arising from use of vehicles on public roads. If you allow the use of private vehicles for business use, you should check that each owner's insurance covers business use.

Motor Vehicle – Evaluate
Motor Vehicle policies are usually comprehensive or third party, fire and theft. You do not have to insure the cost of repairing any damage to your own vehicles. The decision to buy insurance can be taken based on the number and value of your vehicles and the loss experience.

13. Business provides life or health benefits to staff

Life and Health – Optional
Provision and selection of Life and Health insurance benefits are an optional employment benefit, and the business should make commercial decision on the extent of cover provided.

14. Certain people are essential to the success of the business

Key Person – Evaluate
Protects your business against the loss of income resulting from the disability or death of a person in a key position.

15. Business would suffer in the event of a bad debt

Trade Credit – Evaluate
Trade Credit insurance covers businesses against the risk of bad debt due to the insolvency or default of their buyers or customers.

16. Business has directors and/or officers

Directors' and Officers' Liability – Evaluate
Directors' and Officers' Liability insurance provides cover for compensation and legal costs if they are found to have inadvertently acted outside their terms of reference or failed to fulfil their specific duties and responsibilities.

3. BUYING THE REQUIRED INSURANCE

3.1 Appointment of a Broker / Agent

Depending on your business sector, your trade association may be able to assist with the identification of suitable insurance providers. Even if your trade association can help, however, you should consider appointing an insurance broker or agent, because they have specialist skills and can save you time and money.
An insurance agent will normally only deal with one insurance company and use of an agent may restrict your range of insurance options.

The broker (or intermediary) is legally your agent and may keep a percentage of your premium (usually referred to as brokerage), but may also receive an additional commission from the insurers. It is your legal right to know how much the insurance broker or agent is earning on your account and how the income arises, so that you can be confident there is no conflict of interest and that you are getting good value. If the broker does not volunteer this information, you should ask for it. Research shows that business customers usually underestimate the amount of brokerage they are paying.

AIRMIC has developed a set of questions for the buyers of insurance to ask brokers to ensure that there is full transparency and disclosure of all sources of broker income. The list below is not exhaustive, but you should be entitled to at least the following information:

1. Total income the broker receives from your account, both basic commission and additional commission contingent on volume or profit with that insurer. NOTE: AIRMIC believes that brokers should renounce contingent commissions to avoid any conflict of interest
2. Details of the breakdown as above for each type of insurance and each country
3. This information should be provided automatically at the time of placing the insurance
4. Administrative services performed for any of your insurers
5. Other relationships that exist between your broker and your insurers
6. Whether any insurer finances any aspect of the broker business

Your broker will be able to advise you on the practical interpretation of the requirement for you to always act in utmost good faith. An insurance broker will undertake a range of services, including helping you:

- Identify your insurable risks and decide how much insurance to purchase
- Compile and validate the insurance data that will be presented to insurance companies
- Complete insurance proposal forms, when necessary
- Present your insurance information to alternative insurance companies
- Identify cost-effective risk control improvements
- Evaluate quotes from insurance companies, and
- (If necessary) manage any claims

If you are choosing a broker for the first time, think about asking business associates for recommendations. There are many brokers to choose from and some specialise in particular types of insurance and/or different types of industries. When you select an insurance broker, make sure that the broker has the expertise you require, by asking:

- What experience the broker has in your business sector
- What help and support the broker will provide when you make a claim, and
- What recommendations or references the broker can offer

Decide whether you want to use a large or small broker. Large brokers will deal with more insurance companies and should be able to negotiate a preferential premium based on the volume of business placed with a particular insurer. Also, large brokers may have more expertise if you are a specialised type of business, although small brokers will often focus on niche activities or businesses. In any case, you should discuss and agree the level of service that you expect from your broker.

If your broker makes a mistake and you suffer a loss and fail to have a claim paid by an insurer, you will need to be sure that the broker will make good their mistake. You are entitled to know that your interests are protected and your broker is adequately insured. So, it is worth asking your broker what Professional Indemnity (PI) or Errors and Omissions (E&O) insurance they have in place.

3.2 Choice of Insurance Company

Price should not be the only consideration when choosing your insurance company. The most important service from your insurance company will be the full and prompt payment of the claim when a loss occurs.
It is important that the procedures to be followed in the event of a claim are considered before the loss occurs. Decisions about who will report the loss to the insurance company and other aspects of the claims-handling procedures need to be carefully established. These issues are discussed in section 4.3 of this guide.

Several factors are relevant to your choice of insurance company. In the first instance, the overall reputation of the insurance company is important, both in general and in relation to your specific business sector. You will need to evaluate several factors, including the following:

- Financial strength of the insurance company
- Area of specialism and relevance to your business
- Premium charged and cost of any extensions
- Scope of cover and nature of any exclusions
- Level of excess or deductible available / imposed
- Reputation for the handling and payment of claims
- Level of support and range of advice available
- Nature and extent of the working relationships offered

The financial strength of the insurance company is vitally important. Your insurance broker is likely to have solvency criteria for insurance companies that must be fulfilled before placing business with them. However, you should check that this is the case. In the UK, the insurance market divides into commercial insurance companies, mutual insurers and the Lloyd's market:

- Commercial insurance companies offer a very wide range of insurance covers
- Mutual insurers are usually specific to a particular business sector
- The Lloyd's market tends to concentrate on more specialised or unusual risks

The Financial Services Authority (FSA) regulates all insurers in the UK. For some types of cover, you can opt for an insurer based in the European Economic Area or Switzerland, provided they are regulated in their own country. However, for Employers' Liability and Third-Party Motor insurance, you must use an FSA-regulated insurer.

If you have a complaint about your insurance broker or insurance company, then the Financial Services Ombudsman Scheme may be able to assist. If one of your insurers fails to pay a claim because of insolvency, you should notify the Financial Services Compensation Scheme (FSCS), which is the statutory fund of last resort for customers of authorised financial services businesses in the UK.

3.3 Scope and Price of Cover

Your premiums will be calculated based on the information that you provide and the claims history of the business sector in which you operate. They are also likely to be affected by the volume of claims that your business has already made, as well as the exact nature of the business activities that you undertake, especially any activities that place your employees at increased risk of injury.

Because your premium is calculated based on the information that you provide, it is essential that the information is correct. This is the basis of the principle of utmost good faith. If you understate your property values (for example) and then make a claim after a loss, you may find that the claim is reduced in proportion to the understatement of values. This reduction is known as applying average and you should ask you broker to explain the implications of having an average clause in your policy.

Remember that the purpose of Indemnity insurance policies is to restore you to the same financial position as immediately before the loss. This will probably mean that the insurer will pay you a sum of money, but the insurer has the right to opt for other methods of settling the claim, by way of repair, replacement or reinstatement. You will need to make sure that you understand the scope of cover that your business has purchased.

At insurance renewal each year, it is important to undertake an analysis of the insurance options on offer, by taking the following approach:

- Ensure that you or your broker gets quotes from several different insurers, so that you can be sure that you are getting the best insurance deal available
- Compare the levels of cover and the nature of the exclusions offered by the alternative insurance companies that your broker has approached
- Ask whether the insurers offer a no-claims bonus or some other premium reduction incentives and how these can be protected
- Determine whether you are prepared to accept the standard policy wording or whether you need a policy wording specific to your business needs
- Decide the level and nature of claims that you think may occur, so that you can then decide the level of excess / deductible that you wish to retain
- Investigate whether the premium payments can be deferred to a date after renewal and whether monthly or quarterly premium payments can be arranged
- Decide what level of service you require from broker and insurers, including whether you need property protection or health and safety advice, and
- Determine whether the insurer offers 24-hour support helplines for reporting claims or provides emergency response in the event of an injury or loss

There are many similarities between the policies offered by different insurers, but you should check for variations in policy wordings. For example, if you choose to buy personal accident cover for your employees, some policies will pay disablement compensation when an individual is unable to carry out their existing job, whilst other policies will pay only if the individual cannot perform any job.

Most insurance policies provide cover for a year, after which they can be renewed, although the renewal may not necessarily be offered at the same cost. There are a few types of specialist policies, for example, those relating to environmental liability that can be arranged for a longer period. Annual review of your insurance arrangements will help you to ensure that there are no gaps in your historical insurance cover.

Usually, losses are covered by the policy in force at the time that the loss occurs. This is called a 'claims made' policy wording. However, in the case of (for example) Employers' Liability (EL), insurance claims are covered by the policy that was in force at that time of the injury or exposure to a harmful agent, such as noise or chemicals. This is because the damage to the employee may not become evident until some years after the exposure.

These arrangements are referred to as 'claims arising' policy wording, rather than the more usual 'claims made' wording. The fact that EL insurance is written on a claims arising basis means you will need to make sure that you keep a record of your previous EL insurers, especially if you change your insurance company. Some other classes of insurance are written on a claims arising basis, including environmental impairment liability.

If the policy wording does not cover all the potential exposures that you have identified, you should investigate whether you can extend the coverage. For example, you may require Crime insurance to protect you against the fraudulent acts of employees. Your Property policy may offer you a limited amount of cover, but that may not be sufficient for your insurance needs. When looking to buy any additional cover, your broker should investigate:

- Optional extensions to the policy to cover the exposure, although there may be an additional premium payable for any extension, and/or
- Other insurance companies offering the coverage you require as a standard policy wording, either as an extension or as a separate policy

Remember that Insurance Premium Tax (IPT) is payable in addition to the insurance premium. The rate varies from country to country and can be over 20% in some parts of the world. At the present time, IPT in the UK is 5% of the premium charged by the insurance company. Unlike VAT, this tax cannot be reclaimed from the Government. If your business operates overseas, you are likely to require advice about the various IPT rates and payment arrangements in the countries in which you operate.

3.4 Managing Relationships

It is best to have a clear understanding of the relationship with your insurance broker and with your insurance companies. You should have a clear understanding of what your broker and insurer are contracted to provide. It is appropriate to produce a Service Level Agreement (SLA) that sets out the services and service standards that will be provided, especially by your broker.

Examples of the issues that should be included in a typical insurance broker SLA are:

- Names of the parties to the agreement
- Duration of the agreement and the notice required for termination
- Services to be provided by the broker, including frequency of review meetings
- Contractual obligations of both parties to the agreement, including collection and compilation of insurance renewal information
- Disclosure of broker remuneration from third parties (if any)
- Details of the broker service team, including their qualifications and experience
- Performance standards, measurements and response times to be applied
- Arrangements for the review and evaluation of the contract
- Process for agreeing changes and variations to the agreement
- Complaints and disputes resolution procedures
- Frequency and timing of review meetings with the broker
- Price / cost calculations for the service and the payment arrangements
- If the contract is for more than one year, arrangements for fees in future years
- Agreement to the contract signed and dated by both parties

When deciding the detailed contents of the SLA with your broker, you should consider the items listed above, as these will influence the service levels, arrangements and the likely cost of the broker services. Additionally, the factors set out below will be relevant to your working relationship with your broker:

- You will need to spend more time with your broker in the early stages of the relationship to build mutual trust and understanding
- Always keep your broker informed of changes to your business because these may affect the insurance you need to buy, or even invalidate your policies
- Review broker performance regularly and undertake a full review every three to six years, unless you are completely satisfied with the cost and quality of service
- Insurances are normally renewed annually, although this may not be necessary or advisable, especially if there is a large claim in progress
- Do not leave the review process until the last minute, as it is generally a good idea to start discussions around three months before renewal
- Agree your policy before the renewal date, as it is only after the policy has been issued that you can be certain of the scope of your insurance cover

Remember that your insurer also wants the situation where you do not make claims. Accordingly, insurance companies often provide you with advice to assist you with the management of your risks. These additional services can become a major advantage of staying with the same insurer.

For example, your property insurer may offer a survey of the premises, your liability insurer may provide advice on health and safety or product safety, and credit insurers may give advice on minimising exposure to bad debts. Avoiding a loss altogether is better than having a claim paid, so the advice can be worth a great deal and may even be included in the premium in some cases. The value of such advice should be considered when undertaking your insurer and broker reviews.

Remember to keep everything well recorded and fully documented. It is vitally important that all insurance policies and other insurance-related records are retained for the appropriate period of time. Correspondence and minutes of meetings with brokers and insurers should be retained as these documents may prove to be useful if there is ever a dispute over the extent of insurance cover.

This will also be true if you place insurance requirements on your suppliers. Depending on your business activities, you may require suppliers to provide proof of insurance and to keep adequate records. However, it is important to make clear to your suppliers that this does not mean you are approving or validating the arrangements they have in place.

4. MANAGEMENT OF LOSSES / CLAIMS

4.1 Incident Management

When a serious incident does occur, the way you and your staff respond can make all the difference to whether or not you are able to contain the damage. You will need to make rapid decisions, which will be easier if you have planned in advance. Your actions will be far more effective if the people involved have already discussed what to do in the event of an emergency.

For example, in the case of a fire, actions should be taken to reduce the spread of the fire and the extent of the damage. This may include closing fire doors, removing stock or vehicles and closing down production processes. Make sure that the procedures you put in place do not have the potential to put anybody at risk.

If, in the immediate aftermath of an incident, you need to make emergency repairs, you should arrange for these to be undertaken and inform your insurer that you have taken this course of action. It is better to inform insurers before going ahead with emergency repairs, if possible. However, the most important issue is that you prevent further damage that might increase the cost of the claim.

4.2 Loss / Claim Reporting

If you have suffered a loss, it is your responsibility to notify the insurer as soon as possible, probably through your insurance broker. It is likely that your insurance policy will define the length of time that is allowed between the incident or your awareness of it and notification to the insurer. If the claim is reported to your insurance company late, then the insurer may refuse to pay.

Legally, it is up to you to show that you have a valid claim under the policy. This means showing that you have suffered a loss caused by a peril insured by the policy and substantiating the amount of the loss. As soon as you become aware of an injury or accident or you discover loss or damage to your assets, you need to report it to your insurance company. You should write down as many details as possible about what has happened.

You should think about the actions that will minimise the extent of the loss or enable the claim to be settled quickly. For example, the use of disposable cameras is an inexpensive means of recording information following an accident, especially a motor vehicle accident. It may be sensible to keep a camera at every site and in every vehicle. You should advise employees to take several photographs following any accident or incident that may give rise to a claim. The photographs can be supplied to your insurer as part of the claim submission.

The actions to be taken in the event of an insurance claim should be established in consultation with your broker and insurance company. The important considerations about insurance claims are:

- Submit the claim promptly and as fully as circumstances allow
- Collect as much information as possible to supply to the insurer
- Complete the claims documents as soon as possible
- Provide the insurance company loss adjuster with all the information requested
- Ask your insurance company how long it will take for the claim to be paid
- For complicated / difficult claims, request an interim payment from the insurer

In relation to property theft or damage, you may be required to provide information about proof of ownership, value of item lost or damaged, cost of emergency repairs and cost of the permanent repairs. You may also need a police crime reference number, if you think that your business has been the victim of a crime. In all cases, it is vitally important that you keep the damaged items / assets for inspection.

4.3 Claims Handling Arrangements

There are a number of reasons why an insurer may refuse to pay a claim. For example, the event or cause of the loss may not be covered by the policy. The claim notification may have been too late (out of time), or you may have failed to declare some important information at the time you purchased the insurance.

In many cases, you will have a deductible on the policy and will be responsible for paying that part of the claim. Where this is the case, you should discuss with your insurance company the arrangements for obtaining your authority before a claim is settled. This will ensure that you do not receive a demand for payment of the deductible on the policy when you do not accept that you are liable for the claim.

If the claim is large or complex, the insurer will probably appoint a loss adjuster to negotiate the settlement. Although appointed and paid by the insurer, the loss adjuster is required to remain impartial. The loss adjuster should also advise on how to manage the immediate consequences of the incident, what repair and/or salvage techniques are available and also details of specialist companies able to undertake the work. You will need to anticipate the impact that the loss may have on your cashflow. Ensuring that the claim is settled promptly will minimise this impact.

The settlement suggested by the loss adjuster should be within the terms of the policy and equitable to the insured and insurer. If you feel that the loss adjuster appointed by the insurance company has reached an unfair conclusion as to the value of the claim, you may want to appoint a professional to act on your behalf in the claims negotiations. Such a person is usually referred to as a loss assessor or claim assessor.

Loss assessors often earn a fee based on a percentage of the amount claimed. Sometimes the cost of a loss assessor may be recoverable under the terms of your insurance policy. Even if this is not the case and you have to pay for the loss assessor yourself, it may still be the appropriate course of action.

It is sometimes appropriate for you to appoint your own external accountant to prepare the financial details of your claim. Such a person is usually referred to as a forensic accountant. However, this will only be worthwhile for very large claims, typically those in excess of £100,000. Again, the cost of a forensic accountant may be recoverable under the terms of your insurance policy.

4.4 Learning from Losses

It is vitally important that you and your staff learn from accidents, losses and other adverse events. If you have had a fire, a flood, a burglary or any other property damage or loss, then you should consider improving the physical standards of security. In the case of a fire, undertake a thorough review of fire protection standards, systems and procedures.

If there has been an injury, then investigate additional actions that should be taken to prevent a recurrence. Remember to comply with all statutory duties, including reporting of the injury to the appropriate authorities. However, do not admit liability to the injured party, this may undermine the position of your insurance company in any subsequent negotiations – and may even invalidate your insurance cover.

Your insurance company may require you to implement actions to prevent the loss occurring again. It is good risk management to identify risk control improvements and plan implementation before you are required to do this either by your insurance company or by the enforcing authorities. It will help during the insurance renewal process if you are able to advise your insurance company that you have improved your risk control standards since the loss occurred.

5. SUMMARY OF RESPONSIBILITIES

5.1 Buyer Responsibilities

As the buyer of insurance, the main responsibility is always to act with utmost good faith in your dealings with all other parties to your insurance contracts. Your responsibilities include:

- Accurately complete the Proposal Form and disclose all material facts
- Review the policy wording to make sure that it meets your needs
- Check the documents are complete and keep them safe, possibly off-site
- Pay the premium and taxes on time, as this may be a warranty on the policy
- Comply with the requirements of the policy – seek clarification as necessary
- Notify changes in the material facts about your business, and
- Monitor the changing insurance needs of your business

5.2 Broker / Agent Responsibilities

The main obligations placed on brokers are to act as your representative in the insurance world and to be transparent in all dealings with you. In particular, the responsibilities of your broker include:

- Disclose all sources of income on your account and provide details of income
- Discuss and advise on the types and level of insurance cover that may be required
- Assist with the evaluation of existing standards of loss control
- Compile the insurance renewal information from data supplied by you
- Supply you with details of the insurers approached and quotes received
- Check the reputation, suitability and solvency of possible insurers
- Pursue insurance company to ensure prompt issue of insurance policies
- Ensure that all documents are sent to the insurers and to you in good time
- Issue renewal notices and reminders to you in good time
- Monitor claims activity and pursue claims recoveries on your behalf
- Advise on the retention of insurance documents by the insured
- Keep all relevant records relating to your insurance arrangements, and
- Maintain adequate levels of PI / E&O insurance cover in place

5.3 Insurer Responsibilities

The main obligation placed on insurers is to provide contract certainty by the timely issue of the policy documentation and contract clarity by ensuring clear and unambiguous meaning of the clauses of the insurance policy. In particular, your insurance carrier responsibilities include:

- Issue your policy by the time it takes effect so that you achieve contract certainty
- Provide and communicate procedures for resolving any disputes
- Issue insurance renewal notices in good time
- Deal with claims fairly, efficiently and as quickly as possible, and
- Inform you of any changes in the cover terms

FURTHER HELP AND ADVICE

The following organisations can provide further help and assistance with a wide range of risk management and insurance matters.

Association of Insurance and Risk Managers (AIRMIC)
www.airmic.com

Association of British Insurers (ABI)
www.abi.org.uk

British Insurance Brokers Association (BIBA)
www.biba.org.uk

Financial Services Authority (FSA)
www.fsa.gov.uk

Institute of Risk Management (IRM)
www.theirm.org

International Underwriting Association (IUA)
www.iua.co.uk

Society of Lloyd's
www.lloyds.com

CHECKLIST: BUYING INSURANCE FOR YOUR BUSINESS

Here is a simple checklist of the actions that you need to take as you consider the purchase of insurance for your business. More information can be found in the identified / relevant section of this guide.

Action	Comments
1. Appoint insurance broker or insurance adviser (Section 3.1)	• The selected broker should have personal knowledge of your trade and/or your risk exposures • The broker should be in a convenient location for your offices and your main business operations • Details of the main people who will work on your account should be provided • Information about the level of fees, commissions and other broker remuneration should be full and detailed • Ask your broker for details of the Professional Indemnity (PI) or Errors and Omissions (E&O) insurance that they have purchased
2. Undertake assessment of hazards / risk exposures (Section 2.2)	• Undertake an assessment to identify what could happen that would impact your business • Identify the insurance that you are obliged to purchase for legal and contractual reasons • Decide what levels of deductible (or excess) are appropriate for your business and your risk appetite
3. Improve standards of risk control / loss control (Section 2.1)	• Evaluate the existing standards of risk and safety, and property control protection • Identify situations where better control of risks is appropriate and cost-effective • Plan actions that will limit damage or reduce costs in the event of a loss, as well as actions that will reduce the likelihood and severity of an incident
4. Review business continuity arrangements (Section 2.1)	• Analyse the loss events that could seriously disrupt your business operations • Determine whether sufficient controls are in place to minimise the potential disruption • Design and implement improved controls, as appropriate and cost-effective • Implement procedures for the testing of business continuity and disaster recovery plans
5. Decide on likely extent of insurance purchase (Section 2.3)	• Complete the insurance needs assessment described in the table in section 2.3 • Take final decisions on the categories of insurance that you intend to purchase (depending on price) • Identify the amount of insurance cover that you intend to purchase / limit of indemnity that is required
6. Collect and review exposure information (Section 3.1)	• Collect full and accurate information relevant to your planned insurance needs • In consultation with your broker, validate the information to ensure that it is accurate and complete • Ensure that you always act in utmost good faith when completing insurance Proposal Forms • Compile and validate information for presentation to insurers in an easy-to-understand format

7. Compile insurance underwriting data (Section 3.1)	• Obtain advice on property and equipment values, as necessary, and check payroll, turnover and profit data • Clearly prepared and presented underwriting information should achieve quicker and better quotes
8. Obtain quotes and conditions (Section 3.2)	• Challenge the insurance broker to ensure that all appropriate markets have been approached and terms reviewed. • For comparison purposes, ask the broker to obtain quotes at different deductible levels, as appropriate • When comparing quotations, confirm that they are on the same basis, with regard to coverage, restrictions and exclusions
9. Purchase insurance and contract certainty (Section 3.2)	• Monitor the process so that you can make renewal decisions and ensure renewal instructions • Ensure that contract certainty is achieved by the timely issue of the insurance policies • Agree and document Service Level Agreements (SLAs) with the key service providers
10. Monitor any claims and review claims experience (Section 4.1)	• Make sure that loss, accident and claims reporting procedures are in place and are understood by all parties • Agree protocols for receiving regular progress reports on the status of insurance claims • Agree authority levels for payment of claims where there is a deductible in force that you will have to pay
11. Maintain close relationships (Section 3.4)	• Prepare a Service Level Agreement (SLA) with your broker and other key service providers • Agree review timetable and stewardship meetings, as appropriate, with brokers and insurers • Insist on transparency on any premium commissions paid by insurers to your broker / adviser • Always ensure that your broker and insurer are advised of changes to the nature or scale of your business • Ensure that insurance renewal and broker review exercises are started well before the renewal date
12. Retain insurance policies and other records (Section 3.4)	• Retain all insurance policies and other insurance-related records for the appropriate periods • Implement accident and incident reporting and recording procedures and protocols • Retain information on all incidents that could give rise to a claim, as well as details of all losses and claims • Keep details of actions taken after a loss or claim to prevent a recurrence of incident

APPENDIX: 20 KEY INSURANCE TERMS AND CONCEPTS

The insurance industry uses quite a number of technical terms, usually for reasons of precise meaning. Here is a list of the most important insurance terms and concepts. A more comprehensive list of insurance terms and definitions can be found at:
http://www.biba.org.uk/consumer/support/jargonbuster.html
http://www.abi.org.uk/Display/
http://www.lloyds.com/Help/Glossary.htm

Concept	Description
1. ALL RISKS	Term used to describe insurance against loss of or damage to property arising from any fortuitous cause except those that are specifically excluded from the policy.
2. AVERAGE	A clause in insurance policies whereby, in the event of under-insurance, the claim paid out by the insurer is restricted to the same proportion of the loss as the sum insured under the policy bears to the total value of the insured item.
3. CLAIM or LOSS	Injury or loss to the insured arising so as to cause liability to the insurer under a policy it has issued. Loss is another name for a claim.
4. DEDUCTIBLE or EXCESS	Deductible is the amount that a loss must exceed before a claim is payable. Only the amount above the deductible can be claimed. Excess is the amount of the claim to be paid by the insured and it can be either voluntary to obtain premium benefit or imposed by the insurer.
5. EMPLOYERS' LIABILITY INSURANCE	Insurance by employers in respect of their liability to employees for injury or disease arising out of and in the course of their employment. With some exemptions, this insurance is compulsory in Great Britain, and can only be provided by an authorised insurer regulated by the FSA.
6. EXCLUSION	A provision in a policy that excludes the insurer's liability in certain circumstances or for specified types of loss.
7. INCREASE IN COST OF WORKING	Under a Business Interruption policy, some cover is provided for additional expenditure incurred by the insured in order to reduce the shortage in production following an insured event.
8. INSURANCE BROKER or INTERMEDIARY	An insurance broker is a specialist with professional skills in handling insurance business. An insurance intermediary acts as the agent of his client, but is normally remunerated by a commission (brokerage) from the insurer. It is important that the insured is told how much the insurance broker/ intermediary is earning on the account.
9. INSURANCE POLICY	The insured pays a premium to the insurer as a consideration for a contract of insurance or policy. The policy should be issued before the inception (start) date of the insurance cover. It is a document detailing the terms and conditions of an insurance contract and provides evidence of insurance. There is usually a schedule attached to the policy containing information specific to the risk.
10. INSURED and INSURER	The insured is the person / organisation buying the insurance. The insurer is an insurance company or Lloyd's underwriter who, in return for a payment (a premium), agrees to make good any loss or damage suffered by the inured as a result of an insured event.

11. LIMIT OF INDEMNITY	Indemnity is the principle whereby the insurer seeks to place the insured in the same financial position after a loss as he occupied immediately beforehand. The limit of indemnity is the maximum amount an insurer will pay under a policy in respect of all accumulated claims arising within a specified period of insurance. It is also referred to as the sum insured or the maximum amount payable.
12. LOSS ADJUSTER	Independent qualified loss adjusters are used by insurers to carry out detailed investigations of complex and large losses. Although the insurers invariably pay the adjuster's fees, the loss adjuster is an impartial professional person. The suggested settlement should be within the terms of the policy and equitable to the insured and insurer.
13. LOSS ASSESSOR	In Motor insurance, the loss assessor is an engineer. In other classes of insurance, the loss assessor is a person who acts for the claimant in negotiating the claim. It is usually only necessary to appoint a loss assessor when the loss adjuster recommendation is unacceptable to the insured. Loss assessors often earn a fee based on a percentage of the amount claimed.
14. PERMANENT HEALTH INSURANCE	Term used to describe contracts of insurance providing continuing benefits in the event of prolonged illness or disability.
15. PERSONAL ACCIDENT AND SICKNESS INSURANCE	Insurance for fixed benefits in the event of death or loss of limbs or sight by accident and/or disablement by accident sickness. Accident and sickness may be insured together or separately.
16. PRODUCT LIABILITY INSURANCE	These policies cover the insured's legal liability for bodily injury to persons, or loss of or damage to property caused by defects in goods (including containers) sold, supplied (including as gifts), erected, installed, repaired, treated, manufactured, and/or tested by the insured.
17. PROFESSIONAL INDEMNITY INSURANCE	This policy protects a professional person against legal liability towards third parties for injury, loss, or damage, arising from that person's own professional negligence or the negligence of employees.
18. RISK MANAGEMENT	The identification, measurement and economic control of risks that threaten the assets and earnings of a business or other enterprise. A risk is defined as the peril insured against or an individual exposure.
19. THIRD-PARTY LIABILITY	Liability of the insured to persons who are not parties to the contract of insurance and are not employees of the insured. The third party is the person claiming against an insured. In insurance terminology, the first party is the insurer and the second party is the insured.
20. UTMOST GOOD FAITH	Insurance contracts are contracts of utmost good faith or uberrima fides. Both parties have a duty to disclose, clearly and accurately, all material facts relating to the proposed insurance. The Proposal Form must contain sufficient information for the insurer to decide whether to accept a risk and on what conditions. Deliberate non-disclosure, concealment or suppression of a material fact will usually make the contract null and void. A material fact is any fact that would influence the insurer in accepting or declining a risk or in fixing the premium or terms and conditions of the insurance contract.

airmic

6 Lloyd's Avenue,

London EC3N 3AX

Tel 020 7480 7610

Fax 020 7702 3752

Email enquiries@airmic.co.uk

www.airmic.com