



5 TIPS TO ENSURE YOUR BUSINESS INSURANCE IS IN ORDER

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Insuring your risks

Starting a food business has many challenges. Don't get so side tracked with the menu and the products that you forget about the fundamental business risks you should consider. Here are 5 tips for ensuring your insurance is in order.

Trying to break into the market as an SME can be tough. SMEs are fundamental to job creation and South Africa's economic growth. In addition to market pressures, there are other business risks that can blow it for you such as unplanned crises such as fraud, crime, fire and floods.

The costs associated with these disasters are significant and can be compounded by failure to protect the business adequately through appropriate insurance. It is critical to ensure that you have appropriate cover for your business.

1. Use an intermediary

As an entrepreneur, setting up a business can be a costly affair and it's important to get the right insurance cover to suit your business needs. Rather use an expert to assist you. Intermediaries exist to help business owners find the correct insurance cover, and to ensure there is sufficient cover should the need to claim arise. It's always a good idea to use an independent intermediary as this person can look objectively at your needs and provide quotes from a variety of insurance companies. Always ensure you work with a registered financial services provider and confirm the person you deal with has the necessary mandate from the company.

2. Know what could go wrong and how to avoid it

Some of the risks that you should be taking seriously as an owner of a food business and discussing with your intermediary include crime, natural disasters (fire, floods), fraud and general liability insurance.

These could include:

- Natural perils (wind, storm, hail, lightning, flooding)
- Crime related perils (burglary, armed robberies, theft of vehicles/hijacking)
- Accidental damage (motor accidents, damage to computers)
- Legal liabilities (due to products being sold/ repaired, motor accidents where the insured/ driver is negligent).

Evaluate these risks

Evaluate based on the likelihood and the potential size of the loss, for example:

- The likelihood of having a motor accident is high and the size of the loss would be medium to large (a vehicle being written off as well as damage to a third party's vehicle/property)
- The likelihood of a fire at the premises is low but the size of the loss would normally be high to extremely high.

Apply proactive risk management.

Using the information above, you as the owner should decide whether some of the risks can be eliminated or reduced. Here are two examples:

- Installing an alarm and burglar bars reduces the likelihood and impact of potential burglaries
- Arranging with suppliers to deliver stock instead of collecting your own eliminates the risk of loss or damage to goods whilst in transit.

These measures will reduce your premiums as it shows the insurance company you are managing your risks.

3. Know what to insure

This is dependent on the information gathered above, as well as the industry you operate in, but as a general rule:

- Plant, machinery and equipment (against natural perils and burglary)
- Stock (against natural perils, burglary, during transit)
- Reduction in business turnover from damage or loss of stock, plant, machinery, equipment or buildings – often called Business interruption cover
- Computers, cash registers and other equipment (against natural perils and burglary)
- Loss of money
- Motor vehicles (accidental damage, accidents and liabilities)
- Legal liabilities such as someone getting sick from eating your products or falling in your restaurant.

4. Be careful with the fine print

- Always declare all relevant information to your intermediary, no matter how small the detail. Indicating all the risk reduction measures you have implemented will indicate that you are serious about your business and will assist you in negotiating a preferential premium.

- Don't rush the process as spending time looking at all areas of exposure can highlight things you are not aware of. Listen to the advice of the intermediary.
- Always act as if you are not insured. Insurance should be used for large catastrophic claims that are difficult to predict and avoid, not for small, regular losses as this would result in premium increases.
- Reduce premiums by taking appropriate precautions, like installing proper security measures and fire precautions.
- If you are prepared to pay a higher excess, you could negotiate a premium reduction. Ask your intermediary for advice as you also need to bear in mind the impact on your cash flow, should you suffer a number of losses in a short period of time.
- Make sure you adhere to the conditions set out by the insurance company, if not this could result in claims being repudiated
- Always advise the insurance company of changes to the business (ie. a clothing store that starts selling fireworks, a change of address).

5. Insure the correct values

Not all assets should be treated in the same way:

- Insure plant, machinery and equipment for the new replacement value (i.e. the cost to replace the items with new items of similar capacity and design)
- Insure stock for the invoiced amount
- Insure motor vehicles for the reasonable market value (i.e. the amount the business owner would be paid for a second-hand vehicle in a similar condition).
- Although the greatest losses are experienced when a business is not insured, under-insuring your business, property or assets can also have a detrimental effect on your financial wellbeing. If you, for example, insured your computers for R30 000 and they are worth R60 000, you will only be paid out 50% of the value when you claim.

Make sure you keep all documentation as when there is a claim you will have to prove certain information such as proof of ownership etc.

More on this in another article.