Are you Covered?

PROTECT WHAT IS IMPORTANT TO YOU

YOUR FIRST GUIDE TO BUSINESS INSURANCE

KNOW YOUR RISKS

www.covered.org.nz

ICNZ Insurance Council of New Zealand

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Know your risks

As a business owner you will naturally want to look after your business. It is the source of income for yourself and your employees. It might have considerable value, and your customers might be dependent on the products and services you provide.

Many risks in running a business are outside of your control. Disruption or damage to your business can involve huge financial losses, and be inconvenient and stressful while you sort it out.

Some business risks are easy to imagine because you see them every day on the news like:

- fire at your business premises
- natural disasters such as floods, storms or earthquakes
- theft of stock or equipment (through burglary or shoplifting)
- stock transport accidents
- courier or delivery service losses
- cybercrime or hacking
- liability for injuries and property damage caused by your products and services
- product recalls
- employment disputes
- health and safety breaches
- disruptions in your production processes
- personal liability of staff or directors – if something goes wrong, you or your colleagues may be liable to creditors and customers, and could be prosecuted by a statutory authority

There is a way to protect yourself from these risks with different types of business insurance.

What is insurance?

Insurance is a product which you can buy to protect your business against certain risks. You pay an insurance company a premium and in return they promise to repair, replace, reimburse or help your business when something goes wrong.

This booklet will guide you through some of the main types of business insurance you might need to consider. Business insurance is complex, so it is a good idea to talk to an insurance professional and/or carefully research your options. There is a glossary of terms in the back of this booklet, to explain some of the terms which insurance companies use.

"Talk to an insurance professional and do your research"

Get good advice

Business insurance is often tailored to the needs of a business. Go through an **insurance broker** for advice on a specific insurance package that is right for your business.

You should feel comfortable that the broker is experienced, is giving objective advice, and will be there to help you if you have to make a claim.

QUESTIONS FOR YOUR BROKER

What qualifications and experience do they have?

What professional entities do they belong to? (e.g. IBANZ, ANZIIF)

How are they paid?

How many companies do they represent?

What claim settlement services do they have?

When you explain your business to an insurance broker, agent or company, they will assess your situation and tell you what types of insurance you need to protect your business. These can be obvious and not so obvious risks. Explaining your business to more than one insurance professional is sometimes a good idea and may also help you get alternative insurance coverage and cost options to best protect your business.

Make sure you have thought about the likelihood of adverse events occurring and the possible consequences of these:

Consider large disaster events

In a big disaster event you won't be the only one affected. Roads could be closed, neighbouring properties could be damaged, people may leave the area and public transport may stop.

If this happened, how would it affect your business?

- Can your specific disaster risks be covered? For example, is your souvenir retail business protected for loss of profits if tourists stop coming to town?
- Will your 'additional cost of working' allowances be sufficient to cover post-disaster rent increases?

Some types of business insurance

There are many different types of insurance you can get for your business, depending on the size of the business, and what industry you are in. The following section lists some of the main types of insurance which you should think about getting. There are other kinds of business insurance too, so depending on the type of business you run, you may need to get specialist advice.

The more detail you can give to your insurance provider, the better the insurance policy will be for your specific needs.

Asset insurance

Assets are the things your business owns. They include everything from buildings, machinery, the fixtures in your business premises, to the tools you might use, and your stock.

It is important to know the difference between **replacement insurance**, and **indemnity insurance**.

Replacement insurance means that the insurance company will pay you enough money to replace a broken or stolen item with a brand new item.

Indemnity insurance (also known as current value insurance) means that your insurance company will give you money for the current value of the item that gets broken or stolen. So the older or more worn down that item is, the less the insurance company will pay for it.

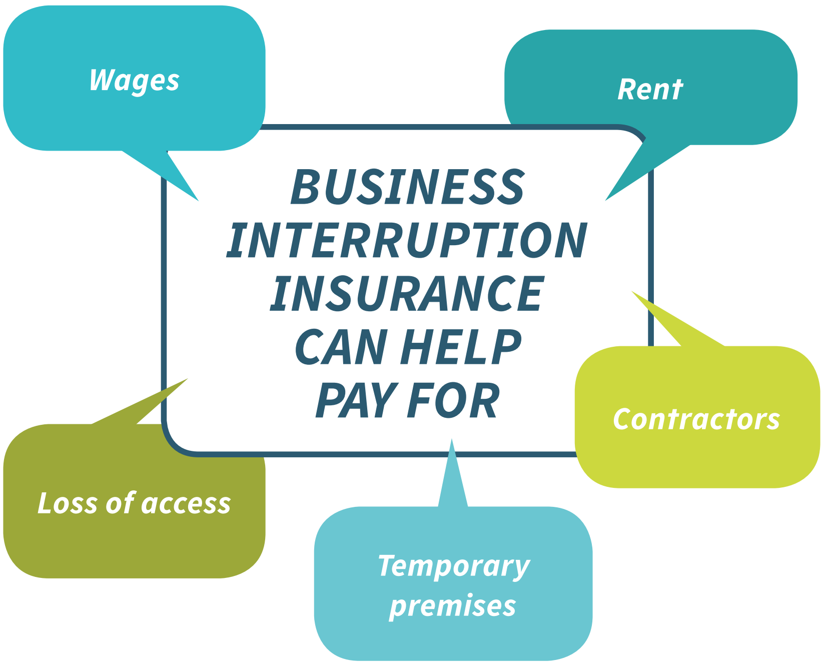
Most people do not know what it costs to replace their assets, especially if they have owned them for some period of time. Because of this it is worth getting valuations for buildings, plant and machinery. It is best to get professional insurance valuations for buildings and plant especially if they are to be insured for replacement.

Business Interruption insurance

The reason you are operating a business is to make a profit, so why not insure your profit in case something goes wrong? To keep your business going when you suffer loss or damage from an insured event, it is important to consider insurance protection on the income that your business normally generates. You may still have to pay staff, rent and power even if you are temporarily interrupted from operating your business as usual.

If your business premises are damaged by an insured event (meaning the business could not supply products and services, or only operate in a reduced capacity) your business income would likely be affected. This insurance is known as **business interruption insurance**.

Apart from wages, rent and other fixed costs, business interruption insurance can help you pay costs to maintain your income. It may allow you to contract out manufacturing to a third party so that you can keep supplying and retaining your customers, move to temporary premises, or cope with loss of access.



How much time will you need to get your business up and running again?

Some businesses are more dependent on their property than others. Manufacturers may need a long period to replace specialist buildings and equipment. Small professional businesses, such as accountants, may find it easier to relocate and begin operating again.

The period of time that a business interruption policy will pay is determined by the "indemnity period" you choose which could range from 6 months to 3 years or more. Make sure your business interruption and temporary accommodation allowances are enough to cover your needs.

For this type of insurance, it would pay to talk to your accountant to discuss the needs of your business, as well as an insurance professional. Your accountant can tell you how much your business would need to be insured for, in order to keep it running and to generate a profit.

Business Interruption payments are taxable too.

Commercial motor vehicle insurance

This insurance is very similar to private motor vehicle insurance, and can cover accidental damage, fire and theft. However, it is designed for businesses and tailored to you depending on how many people drive your vehicle, how large it is, and what goods you are carrying.

Even though your vehicle is a business asset, you'll need separate commercial motor vehicle insurance.

Liability insurance

Businesses can become legally liable for their actions, even if the actions or the result of those actions are unintended. Here we describe different types of insurance products to protect your business from the risk of legal liability.

Public liability insurance

If your business accidentally injures someone, or damages someone else's property, your business may be legally liable to the person who is injured or had their property damaged. The costs of a legal liability you owe to someone else for injuring them or damaging their property could be significant. **Public liability insurance** can cover these costs.

Product liability insurance

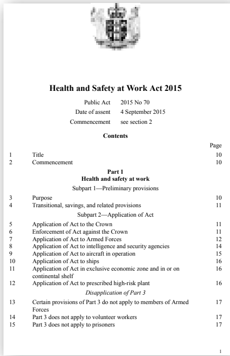
Likewise, if you supply a product which turns out to be faulty, your business can be liable for any property damage or personal injury the product causes. Insuring against product liability means that your insurance company may pay for the damage your product has created.

For example, imagine you build and sell gas heaters. You sell a heater to a customer, who takes it home and switches it on. The heater catches fire and damages their home. Your company could be held liable for that damage.

Statutory liability insurance

If you or your staff unintentionally breaches a statute like the Resource Management Act 1991 or the Health and Safety at Work Act 2015, your business can be held accountable. The relevant regulatory authority may investigate and take legal action against you and/or your business.

Statutory liability insurance can cover your legal defence costs, and reparation for any harm that the breach of the statute has caused. Sometimes fines can be insured too, however for health and safety breaches they cannot.



Health and Safety at Work Act 2015

Public Act 2015 No 70
Date of assent 4 September 2015
Commencement see section 2

Contents

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Employer's liability insurance

Even the best employers have disputes with their employees from time to time. If you have employees, you could face an employment dispute. This could involve disagreements about the interpretation of employment contracts, wrongful termination cases, or how your employees have been treated whilst working for you.

You can get employer's liability insurance to help cover any costs involved in employment disputes, including court costs if the dispute escalates.

Employee fraud

If you believe there is a chance that one of your employees may attempt to defraud your business, you can get different types of 'Fidelity Guarantee' insurance.

Professional indemnity insurance

If your business provides professional services or professional advice to your customers, you will need professional indemnity insurance. A customer may suffer loss because of negligence or professional misconduct by your business or its employees. You may then face legal liability to put it right.

For example, imagine you design a deck for a customer to build onto their house. You provide measurements and advice about building materials. However as soon as the deck is built, it collapses. The customer now wants to sue you and your company because your design was faulty.

Alternatively, imagine you set up a small accounting business. One of your employees makes a negligent mistake when giving advice to a client about a tax return, and Inland Revenue ends up suing your client for not paying enough tax. Professional indemnity insurance can cover the costs of this mistake.

Directors' and officers' (D&O) liability insurance

D&O insurance covers claims against the individual directors and officers of your business for negligence or breach of duty when they are acting in their capacity as a director or officer – that is, when they are governing or managing your business. It is particularly important for large organisations, or ones that involve large sums of money (or debts).

For example, imagine a business goes bankrupt after a director makes decisions which put the business' creditors at serious risk of not being repaid. The business' creditors may sue the business to get its money back, and also claim the director breached its Companies Act duty to not put the creditors at substantial risk of serious loss.

D&O insurance covers the legal costs of defending your directors and officers, and the damages that they may have to pay if a judge finds that they are liable.

Cyber liability insurance

Cyber liability insurance covers your business for risks relating to the use of the internet and other computer infrastructure. For example, if your work computers are hacked, or a virus is deposited on your system, or you suffer some other kind of cyber-crime committed against you, cyber insurance will cover you for:

- Legal fines if your customers' privacy is breached.
- Costs to repair your IT systems or databases.
- Fees for specialist crisis management advice to help protect your business's reputation.
- Loss of profits if you cannot trade.

Transit Insurance

If you were to transport goods and products, whether it be by local courier or international shipping company you should consider transit insurance (also referred to as marine insurance). Policies can be tailored for one-off transits with in New Zealand, or automatic cover for all your international exports or imports.

Products are your property until received and paid for by the customer.

Construction Risks Insurance

Construction risks such as home or commercial buildings will need to be insured by a specialist construction risks policy. This will protect materials, fixtures and/or equipment being used in the construction or renovation of a building or structure should those items be damaged or suffer loss.

Breakdown of plant and equipment used for manufacturing or production can be insured under a dedicated machinery breakdown policy.

Choosing the right settlement options

If you lost everything, would you want to build back exactly the same? In many cases, businesses affected by a big shock need to adapt to new circumstances. An indemnity policy could help if you want a total loss payment which you can use in any way you choose, but remember this is based on current value at the time of loss.

How quickly would you need cash if your building was damaged? If cash flow is critical to your organisation's survival, then consider an 'indemnity' rather than a 'full replacement' material damage insurance policy. Your settlement times on total loss claims could be greatly reduced.

Make sure the policy clearly states when your policy coverage will be reinstated following an event. Ideally your policy coverage should be automatically reinstated at the time of damage.

Exclusions

It will not be possible to cover all risks, so you will need to decide how much cover is reasonable, and be prepared for events larger than this.

It is also worth noting that every insurance policy will have exclusions – things that the insurance company won't pay for. You should check out what exclusions your insurance policy has.

How to make a claim

If you have insurance and something has gone wrong – now what?

You will need to put in an insurance claim with your insurance company. Do this as soon as you possibly can.

When something goes wrong, tell your insurance provider or broker before you do anything else! Tell them what has happened, and they will advise you about what to do next.

Excess

When you claim on your insurance, you will have to pay an **excess**. The amount varies depending on your insurance contract. An excess is the contribution which you pay towards your insured loss costs, and your insurance company will pay the rest of the agreed amount.

By increasing the amount of excess, you may reduce the cost of the insurance premium but you would need to be in a position to fund the excess if you suffered an insured loss. This is part of the decision you make when assessing the risk.

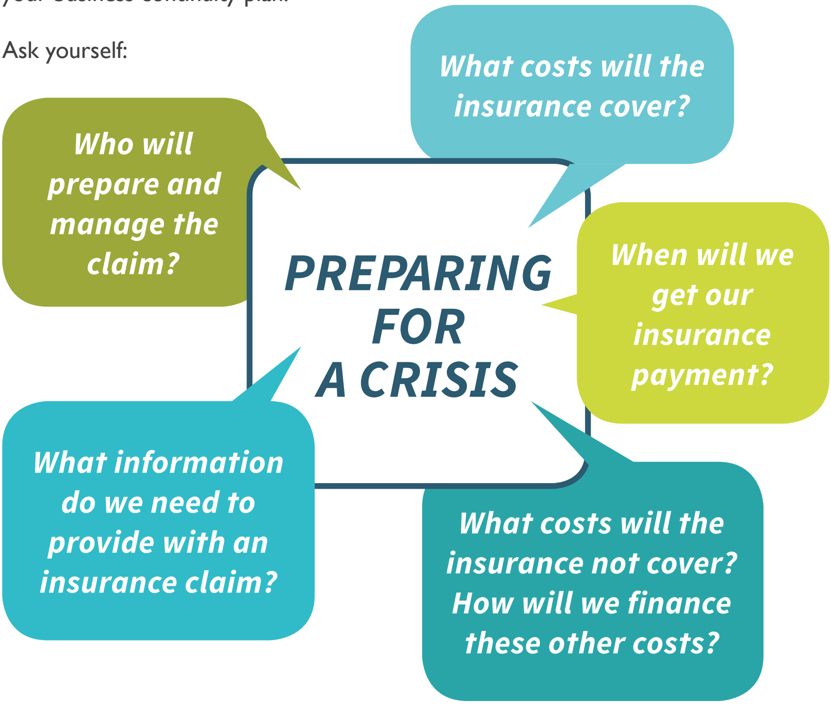
It is very important to tell your insurance provider the truth. If you lie, you can be charged with insurance fraud. You can be prosecuted and face severe penalties (and also be declined insurance cover by any company in the future).

The insurance industry in New Zealand has an Insurance Claims Register (ICR) which is used to check on insurance fraud. The ICR has been operating for over a decade and has over six million claims in the database. Companies can check this to see whether you have disclosed things properly.

Business Continuity Planning

Insurance is an important part of your preparation for a crisis, and should be part of your business continuity plan.

Ask yourself:



You will need good financial and inventory records to claim on business interruption policies. You must maintain these regularly and make sure this information will be accessible after a disaster.

DON'T STOP THERE!

Insurance is just one tool in your resilience tool belt – it does not make all risks disappear!

You need to manage all the risks you face as part of a broader business continuity plan and culture of resilience. For example off-site data back up and the ability to continue working after an event should be part of your systems and planning.

If you have a complaint

Dispute resolution schemes resolve complaints about insurance and financial services. They provide a free and independent service.

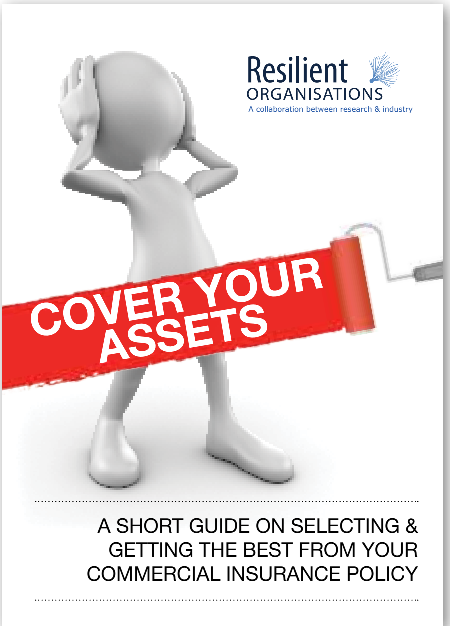
For more information see:

Financial Services Complaints Ltd: www.fscl.org.nz

Insurance & Financial Services Ombudsman: www.ifso.nz

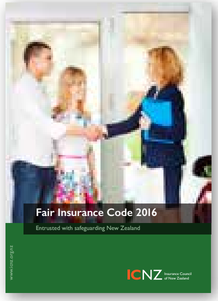
More information on getting the best from your commercial insurance policy

Resilient Organisations (ResOrgs) is a public good research programme based in New Zealand that has been researching what makes organisations resilient to crises since 2004. Their "**Cover Your Assets**" Guide provides useful objective information on managing your risks, selecting the right amount of insurance, selecting an insurer as well as using an insurance broker.



See www.resorgs.org.nz

The Fair Insurance Code



All members of the Insurance Council (ICNZ) are signatories to the Fair Insurance Code. From 1 January 2016 the new Fair Insurance Code commits ICNZ members to higher standards of service in all their dealings, not just with respect to claims.

The new Code includes:

- Effective communication with the insured, particularly concerning up-front disclosure of key information.
- Insurers committing to act reasonably when faced with the non-disclosure of relevant information by the insured.
- Best-practice timeframes for communicating with the insured at claim time (insurers will acknowledge your claim within five business days, determine whether to accept your claim within 10 business days, or for more complex claims will update you at least every 20 business days).

The Fair Insurance Code only applies to small businesses with 20 or less full time employees.

If you need more help:

Here are some websites you can check out:

Insurance Council of NZ: www.icnz.org.nz

My Insurance Guide: www.myinsuranceguide.co.nz

Sorted: www.sorted.org.nz/a-z-guides/insurance

Are You Covered: www.covered.org.nz

Financial Services Complaints Ltd: www.fscl.org.nz

Insurance & Financial Services Ombudsman: www.ifso.nz

XERO Small Business insurance guide: www.xero.com/nz/small-business-guides/business-management/small-business-insurance

Glossary

Some of these terms can be a little confusing. They show up in insurance contracts and policies.

Act of God/ Force Majeure: this may sound strange, but it is actually a legal term. It means 'anything which is outside of human control'. Some insurance policies can sometimes exclude 'Acts of God' – things like natural disasters. It does not actually have any religious meaning here; it just means something that happened because of nature rather than humans.

Broker: advises you about the policy that may be best for you and acts as your agent when a claim is made.

Claim: you are making a claim when you ask your insurance provider to repair, replace or reimburse you when something goes wrong. You usually put in an insurance claim by calling the company. They will ask you some questions, and then process your claim. They will check to see if it fits within your insurance contract, and if it does then they will approve your claim.

Comprehensive Insurance: Covers damage to your property as well as damage you cause to the property of others.

Cover: the things which your insurance company has agreed to repair, replace or pay for.

Duty of Care: when you take out insurance, you are expected to try to look after (to care for) the things you have insured. If you don't try to care for your things, then your insurance company may decline your claim.

Excess: is the amount of money which you agree to pay your insurance company if you want to make a claim. The excess is the first part of your insurance claim – your insurance company will pay the rest. Your insurance contract will say how much of an excess you must pay if you make a claim.

Indemnity/Market Value Insurance: means that your insurance company will give you money for the current value of the item that gets broken or stolen.

Liability: being legally responsible for something which you will be held accountable for.

New for old/contents replacement insurance: the insurance company will pay you enough money to replace a broken or stolen item with a brand new version.

No claims bonus: if you have never made a claim on your insurance before, sometimes insurance companies will offer you a 'no claims bonus' – this is often a discount in how much you have to pay for your premium.

Policy: this is a document which the insurance company will send you when you pay for insurance from them. It will outline what you are covered for, and what isn't covered.

Premium: is what you pay to an insurance company to get insurance. Often you have to pay a premium annually (yearly) or monthly. It's basically the money you pay to 'buy' your insurance.

Third Party Insurance: Only covers damage done to the 'third party'. The first and second parties in insurance are you, and your insurance provider. The third is anyone else involved. For example, if you crash into another car, the third party is the person who owns that other car.

Underwriter: is a person from an insurance company who writes their rules and guidelines. They decide what things you can be covered for, what your terms and conditions are, and decide how much the company will charge you for that cover.

Utmost good faith: This is a legal concept implied into insurance contracts by law. Both you and your insurance company must be truthful, honest and act 'in good faith' to each other.

Void: Cancel, negate, or refuse to recognise.

For more definitions, see the New Zealand Insurance Council website: www.icnz.org.nz/for-consumers/glossary www.covered.org.nz

ICNZ Insurance Council of New Zealand