

# INSURANCE & RISK MANAGEMENT

## BUSINESS CONTINUITY PLANNING

# Taking the right cover when disaster strikes

ANTHONY DAVIES

Recovery plans are a key part of any risk management strategy, and insurance and a business continuity plan are the key components of a recovery plan.

"You can't eliminate all risks, so you need to take steps to reduce the risk of disruptions which jeopardise cashflow and upset customers," says David Dunsheath, managing director of Wellington-based consultancy Business Continuance Planning.

Insurance is part of the answer, but by no means all of it, he says. For example if your factory is seriously damaged by an earthquake or fire, an insurance payout may give you the financial means to rebuild, but in the meantime you still have orders you need to fill.

That's where business continuity planning (BCP) comes in, he says.

A manufacturer, for example, would start by getting BCP to look at what the end objective would be in the event of losing production capabilities. "Their immediate aim should be to preserve market share rather than rebuild the factory," he says. So BCP should investigate sourcing alternative lines of supply.

"You need to think about goals rather than just climbing back up the cliff you've fallen down," Dunsheath says. He adds while BCP is about responding to disaster, it's also about making a strategic response rather than the immediate response a disaster requires.

While there's usually no shortage of people willing to don hard hats and chip in after a major incident, it takes a different kind of response to get a business back operating.

While insurance has limitations, the right kind of cover can save businesses and owners from financial ruin.

However, insurance works by providing cover on a

strictly limited basis, so it is essential to check your policy wording to ensure you are getting the cover you want.

Policy wording has tightened considerably since 9/11. Before then insurers' and reinsurers' loss modelling assumed foreseen scenarios, but that all changed with 9/11 when they found they were covering huge losses caused by events they had not foreseen and hadn't excluded from their policies.

Whereas previously owners could reasonably assume that if a risk wasn't specifically excluded it was covered, now if it's not specifically included it's not covered.

Wellington insurance broker David Pine illustrated the point with business owners' liability cover.

**While insurance has its limitations, the right kind of cover can save businesses . . . from financial ruin.**

"One of our clients was recently sued by OSH (the Occupational Safety and Health Service of the Department of Labour) after an accident involving a customer. He had hoped his public liability insurance would cover him but this was not the case.

"Public liability is designed to protect you if you or one of your employees damages someone else's property or injures someone and the person seeks compensation from you for the damage or injury. Although there are exceptions, as there are in all policies, provided you are not proven to be negligent, your public liability insurer will usually pay the compensation," he says.

However, another of his clients, a plumber who damaged a vinyl floor when installing a dishwasher, was more fortunate: his insurer paid out.

The reason for the different outcomes was the first of Pine's two clients was successfully prosecuted by OSH for breaching the Occupational

Safety and Health Act 1992, and public liability insurance specifically excludes cover when this occurs.

However, the client would have been covered if he had had statutory liability insurance. His payout would probably have covered his court costs and any award for damages the court ordered him to pay to his victim. But, there are also important exclusions to this type of cover, notably, breaching the Crimes Act. And while it will cover court costs and damages award, it won't cover fines.

In addition, business owners should consider whether they need employers' liability insurance. This provides cover where an employee or OSH sues an employer for having an unsafe

working environment.

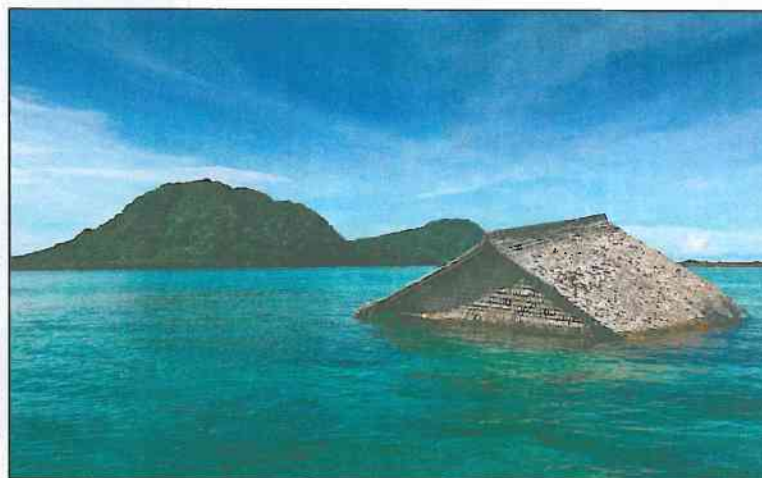
Sloan warns premiums will vary considerably, depending on the nature of the business and an insurer's perception of what risks are being carried.

He emphasises while brokers will compete aggressively to win accounts, buying insurance cover based on who offers the lowest premiums can be a false economy.

Dangers remain for clients who change to cheap premiums. When the big claim comes along they may find the actual cover is not as wide as they thought or the new insurer is tough on the claim.

Business risk specialist Cecilia Farrow, managing director of franchise risk operation Triplejump, says business owners, especially small business owners, need to think not just about the risks to their businesses, but the risks to them personally.

"The four most commonly used risk management strategies are retain, reduce, avoid and transfer (insurance)," she says.



Keeping head above water: Right kind of cover can avert financial disaster.

FAIRFAX/PAUL HARRIS

"SMEs facing key person risk are typically not in a position to avoid or retain the financial effect of losing a key person. They therefore need to consider, first, insurance to cover the loss of profit and increase in costs and, second, the implementation of strategies to reduce the dependence on the individual.

"Some practical steps to reduce the risk include ensuring the business processes are documented, that multiple relationships are established with key customers and that the business adopts a development programme for other employees. However, these strategies may take years to complete and in the meantime the business is highly exposed.

"Modern insurance products enable the business to manage both temporary disability and catastrophic events such as death and permanent disablement."

DLA Phillips Fox partner Peter Leman emphasises taking the time to sort out risk management issues shouldn't be considered downtime, but it can save businesses money. If you've taken the time to identify, quantify and address the risks your business faces, you should be in a strong position to negotiate a better deal from your insurer, he says. They might also find they need less cover than they'd originally supposed.

"Part of the equation should be a balance between what

you're able to retain yourself and deductibles versus premiums," he says.

Insurance is a highly competitive market, and while insurers want to increase their market share, they also want to limit their own exposures, so a client who's quantified their risks is more desirable than one who hasn't, he adds.

Insurance is a mechanism for transferring risk by pooling it. However, to make a profit, insurers need to be able to assess and quantify risks so they can properly price it. Insurance isn't good at dealing with the unknown, so where it is asked to, it will invariably err on the side of caution - which means higher premiums and more restrictive cover.

## Addressing the people risks

ANTHONY DAVIES

Businesses are increasingly waking up to their "people risks" or what is known in the trade as "human capital risk". This includes succession planning, skill shortages and losing key staff.

Recruiting and retaining the right people is crucial. The HR side is becoming increasingly important and it's getting harder to nail in a global environment when people are increasingly mobile, says Kirk Williams, chief executive of Marsh NZ.

Chris Peace, managing director of Wellington consultancy Risk Management, agrees.

"The inability to recruit and retain competent staff is as a major challenge." He says it's a two-fold challenge. First you have to find them and then you have to keep them. "People become competent and then they go off and earn

double the salary overseas."

That's where ACC subsidiary, Catalyst Risk Management, comes in.

According to its website, it "works with New Zealand businesses to improve employee satisfaction and business efficiency by achieving excellence in health and safety and injury management. We're experts in both quick-fix solutions and long-term trend identification."

And presumably happier and healthier employees are more loyal employees.

Firth Industries, the Auckland-based concrete and concrete masonry manufacturer, is a client. Its employees could come into contact with various chemicals and fumes so health and safety is a priority.

Through its "WorkCare", "Injury Management" and "JobCare" services, Catalyst Risk Management provides pre-employment health tests

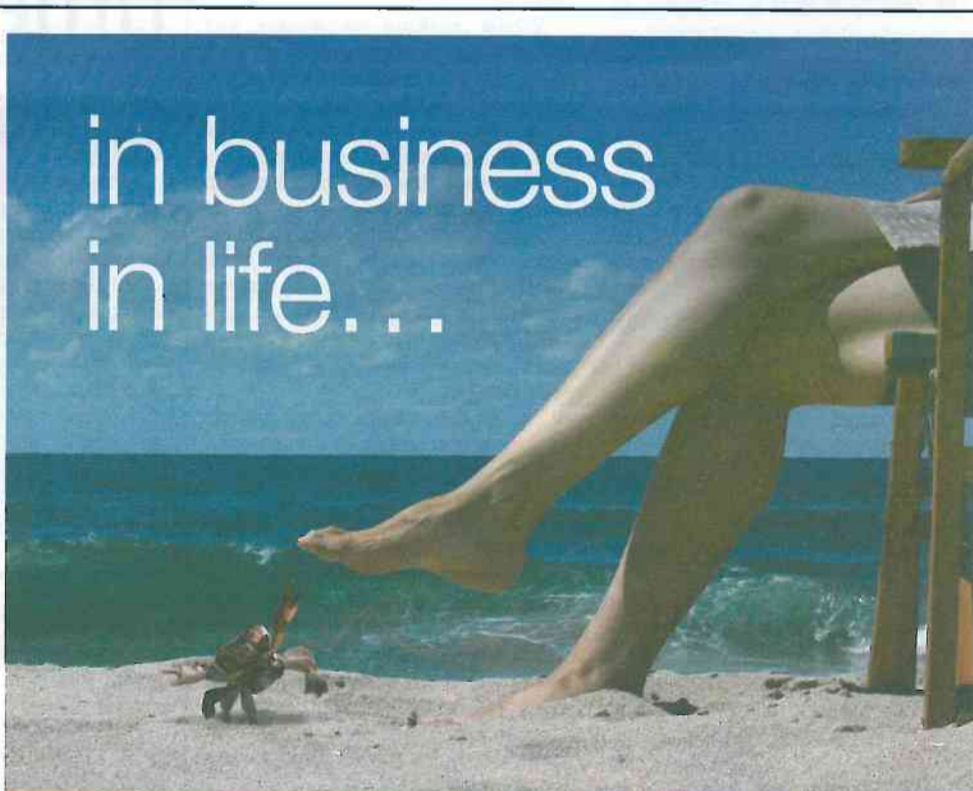
and health monitoring. These include eye tests, hearing tests, lung function tests and skin checks.

It outlines one case study in a recent client newsletter.

"In August 2006, mandatory occupational tests, including vision assessments, were performed on all staff. For one staff member the vision assessment revealed results outside the acceptable acuity range for a heavy truck licence.

"The employee was subsequently referred to an optometrist whose assessment revealed the employee needed cataract surgery to return to his normal duties. Firth employed the Catalyst Risk Management JobCare service to help return the employee to work as soon as possible.

"Within two months, JobCare's team facilitated the cataract surgery and the employee's return to full duties with no driving restrictions."



What happens is not always what you expect. It pays to have a Plan B.

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