insight

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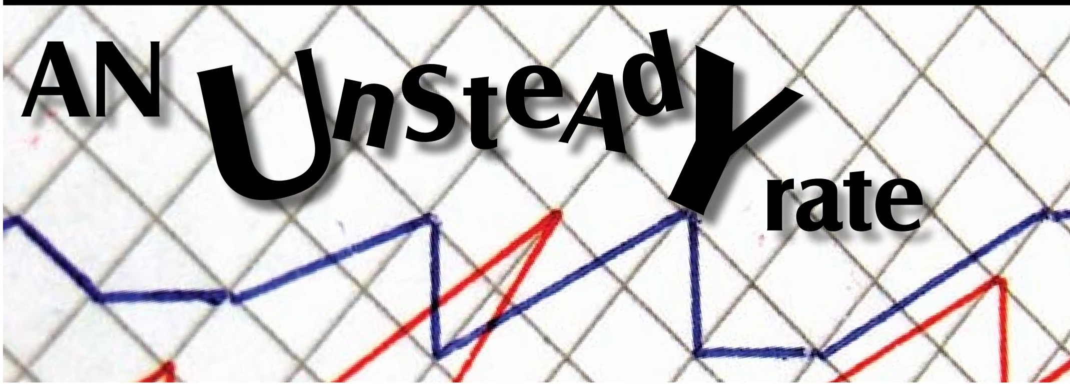

How the downturn affects your insurance premium - and how we can help

No industry is immune from the effects of the credit crunch, and the insurance sector is no exception. Since 2005, rates for most types of insurance policies have reduced - although some premiums may have increased to reflect business growth.

The cumulative impact of these rate reductions, however, has affected the results of major insurers, leaving the industry in a position where the cost of claims and expenses are exceeding the premiums paid by customers. Past shortfalls may have been covered by interest earned on reserves (kept aside to pay for outstanding claims) but, as interest rates have fallen, so have these resources. Insurers are now looking to increase rates for the remainder of 2009 to balance their figures.

Each insurer has its own plan, but most look at each customer and make a decision based on a combination of their past claims, their risk profile, and the claims trend for their particular business sector and class of business. It is impossible to predict with certainty, but overall rates are expected to rise by around 5% in 2009, with some increasing by more and others not changing at all. For customers where activity is reducing, rates may increase but premiums could still come down.

There is still competition among insurers to insure well run businesses - albeit less so than in the past few years. This is because some insurers have deliberately reduced the amount of business they handle, or become much more selective.

Meanwhile, we've become wary of the financial security of some insurers who are based abroad - a position prompted by the problems encountered by US-based insurer, AIG. In order to protect our clients, the number of insurers we are prepared to recommend has been adjusted accordingly.

We are deeply aware of the financial strains facing our clients at present and will make sure your insurance arrangements reflect your current business activities. As a Member of Broker Network, the UK's longest-established commercial network, we have particularly strong relationships with a host of quality insurers, and will continue to negotiate the best possible deal for you.

inside:

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Member of Broker Network

Covering your bases

Cutting back on security and maintenance now might cost you more in the long term

In times of recession, crime increases dramatically. Some commentators anticipate a doubling of burglaries and fraud, whilst computer crime and instances of arson are also expected to grow substantially.

As a result, expenditure on health and safety and risk management initiatives tends to reduce as costs are contained. But the overall effect of these pressures is likely to drive up claims and premiums for those businesses affected - in the worst cases it could even result in withdrawal of insurance cover unless more is spent on precautionary measures.

At a time when business owners want to concentrate on maintaining profit by retaining and growing customers, such distractions are particularly unwelcome. Therefore now is the time to revisit your preventative plans and ensure your risks are covered.

Actions should include a review of:

- **Physical security at your premises.** Ensure equipment is working properly and safely, and that staff have not become complacent in duties such as locking up. If there are any weaknesses in your security they should be rectified. Good security will keep burglars and arsonists out.
- **Computer security.** Make sure off-site data duplication is compliant, virus and hacking protection is working well and check similar security is being maintained at sites where work has been outsourced.
- **Internal systems.** Ensure audit requirements are adhered to, stock control measures are strengthened and spot checks are made more regularly.
- **Maintenance of buildings, plant, equipment and vehicles.** Whilst some businesses see reducing such activities as a way of saving money, it is important to maintain standards. Breakdown of key items could cost more in the long-run and failure to carry out routine maintenance could cause difficulties if a claim is made following a fire, for example.

If there are changes in your security arrangements or other such areas, please let us know so we can notify your insurer to ensure your policy is not invalidated. Do also inform us immediately if you intend to leave any premises unoccupied or unmanned. You should also tell us if there is any change your business activities, stock levels or profit expectations. We are always happy to provide help or advice on any insurance-related issue.

STRENGTHEN your defence

Whilst some premiums can be reduced to reflect a change in business activities, new covers may now be worth consideration

When the going gets tough, every sensible business looks at its costs and tries to make savings. For some it's just good housekeeping; for others, a desperate attempt to stay in business.

As premiums for many types of insurance are based on business activity levels, you could make savings if stock levels fall, profits reduce, turnover and wages are cut, or vehicles are sold or taken off the road. You should advise us if any of these apply to you, although we will raise this at your annual review.

It may be tempting to cut out some covers, but this is not recommended unless a company's survival is in real doubt. In a climate where borrowing is difficult, it may be harder to withstand an uninsured loss than when times are good. A shortfall in any claims settlement may trigger a cash or credit crisis distracting you from focusing on the overall health of your business.

Indeed there are some covers, which you may not previously have considered, that can become particularly valuable in times of financial uncertainty.

Commercial legal expenses and employment protection

This insurance covers the costs of legal disputes and unfair dismissal claims. In a recession, litigation increases and many employers are forced to reduce their workforce. The appropriate protection provides peace of mind that, if such a situation occurs, any subsequent payouts will be covered.

Directors' and officers' liability

There is an increasing incidence of Directors and officers being sued as individuals, as well as the company they work for; the likelihood of this inevitably grows when the financial future of a business is in doubt. If a claimant is successful, a Director can not only lose the business but personal assets as well. Directors' and Officers' Liability cover can help protect senior figures within a business from such threats to their personal wealth.

Credit insurance

This type of cover has suffered from some negative publicity recently, but it can still provide a cushion when a client is declared insolvent, it also helps businesses make credit decisions. It is a viable alternative to factoring or invoice discounting and can help with bank borrowings and cash flow.

All these covers may be well worth considering in the current climate - if you'd like further details, please contact us.

Steadysupplies

Now's a good time to look at your vulnerability to a supply failure, as part of an ongoing Business Continuity Plan

Just before Christmas the entertainment retail chain, Zavvi, went into administration because its major supplier, a subsidiary of Woolworths, had become bankrupt and could not supply goods in the crucial pre-Christmas period. Given such short notice, it was unable to source an alternative supplier.

For debt-laden Zavvi, the subject of an earlier MBO, this blow was the final straw. Its experience demonstrated the vulnerability of some businesses to events outside their control, and highlighted the need to prepare not just for financial difficulties among customers, but suppliers as well. Whilst it's possible to insure against the defaulted payments of customers, only limited insurance protection is available to cover suppliers.

Cover can be provided if supplies are interrupted as a result of loss or damage. This could relate to goods in transit (eg an important machine, or a container-load of Christmas stock from China), or instances where a supplier's warehouse or factory is destroyed by flood, fire or other natural event.

Some policies automatically provide limited cover, but businesses should look at their own supply chain and consider their vulnerability to a temporary or permanent supply interruption - we would be happy to discuss this with you. It is sound business practice to consider multi-sourcing, holding buffer stock, checking the financial position and reliability of important suppliers and having contingency plans in place.

This assessment should form part of a Business Continuity Plan covering all of the risks your business is exposed to, how these can be minimised, and what action the business should take if the worst were to happen. These plans are increasingly important in the current climate; indeed many banks, lenders, investors and even customers are asking to see these as a matter of course.

If you would like help developing your Business Continuity Plan, please do let us know.