



Chartered Insurance Brokers

COVERNOTES

Summer 2013



A small business survey carried out by the Department for Business, Innovation and Skills (BIS) last year, revealed that 68% of SMEs were planning to grow their business over the next two to three years. While this growth can only be good news for an economy still struggling to escape the drag of recession, SMEs will need to make sure that their business insurance and risk management approach reflects the changing needs of their expanding businesses.

TAKING ON STAFF

A growing business normally means more employees. Of those SMEs looking to expand, 64% surveyed by BIS expect to take on more staff within the next 12 months. For some this might mean taking on their first employee which means they will need to ensure they have employers' liability cover in place – a legal requirement in almost all cases. The Health and Safety Executive provides information on who needs employers' liability at www.hse.gov.uk. Any business will also need to think about a health and safety policy and if it has five or more employees, it will need to be written down.

LAUNCHING NEW PRODUCTS OR SERVICES

The BIS survey also found that 65% of expanding SMEs were planning on launching new products or services. This could have implications in terms of products liability; what if a new product you manufacture causes someone injury because of a fault that wasn't evident during product testing? Or if services offered in a new area, where as a business you have less experience, lead to negligence claims? This potential exposure may need to be covered by professional indemnity cover.

Other risks could include:

- **Online** - expanding your online presence to enable customers to purchase products and services over your website could open up your business to data risks; are you covered if a hacker obtains sensitive customer details such as credit card information from your computer system?
- **Financial** - your business' financial risk grows as your business grows, whether it's in the form of bad debts from clients or possible fraudulent activity by staff.
- **Reputation** - with social and global media coverage, could your business survive the negative media exposure to an incident linked to one of your products, or to bad advice you have given?

GET ADVICE

BIS's survey cited the most frequent sources of advice turned to by SMEs were accountants, consultants, banks, solicitors, lawyers and business networks. Given the changing risks of a growing business, we'd be delighted to be added to that list of professional advisers most frequently consulted.

Call us for an up-to-date review of your business insurance requirements.

CLASS CONSCIOUS BRITAIN: ARE YOU WORTH MORE THAN YOU THINK?

'I look up to him because he is upper class, but I look down on him because he is lower class' goes the famous 1960s parody of the British class system. More than forty years later, the class debate has been hitting the headlines again with the launch of the BBC's Great British Class Survey *, which seeks to understand if class still counts in the early 21st Century.

Whether or not you think it matters, it might be that a more serious point is made; namely that many of us are perhaps wealthier than we think and may not be adequately protecting our wealth.

WHAT'S YOUR ECONOMIC CAPITAL?

The BBC's Class Survey groups the great British public into seven different classes including elite (the most privileged class), technical middle class and emergent service workers. Where you fit depends on your rating in terms of economic, social and cultural capital. And it's the economic capital that needs to be considered when buying your insurance.

Many of us have more economic capital than we're aware of and that could mean we are not buying adequate insurance to cover us in the event of a loss. Bought any jewellery recently? Inherited any antiques or expensive paintings?

How many expensive electronic gadgets do you have? Extended your house? Factors like these could mean that your existing household insurance won't cover you fully.

YOU MIGHT BE A MID OR HIGH NET WORTH

Insurers don't talk about elite or middle classes but have developed specialist household insurance policies for mid net worth and high net worth customers which offer higher levels of cover than standard policies. These policies, as well as having higher limits for specific items, will usually have wider cover such as 'All Risks' rather than specific perils (i.e. storm damage or theft), and less warranties and restrictions.

If you've never considered a mid or high net worth policy we'd be happy to talk you through the higher levels of cover they offer.

* Source bbc.co.uk © 2013 BBC

HORSE TRADING REVEALS SUPPLY CHAIN RISKS



Horse meat unwittingly eaten by consumers in the U.K. and Europe. A horrific building collapse in a clothes manufacturer's factory in Bangladesh. Two seemingly unconnected events, in different parts of the world, have one common theme as far as businesses from the smallest clothes retailer to the biggest supermarkets are concerned; supply chain risk.

Every business would say that it chooses its suppliers carefully, whether it's a business manufacturing food products and sourcing the raw ingredients it needs, or a clothes retailer searching for high quality and/or best value clothing. How sure can any business be however that its suppliers are sourcing and producing their goods in an ethical and sustainable way? And what would happen if a supplier suddenly went out of business?

Whatever industry you are in, the onus is on your business to be asking questions of its supply chain:

- What happens if one of my suppliers goes bust or is unable to meet an order? Can I source what I need elsewhere at short notice?
- How ethical and sustainable are the working practices of not just my supplier but their suppliers too? Could their practices affect my reputation?
- Would we be able to deal with the damage to our company's sales if a fire occurs at a supplier and our order can't be processed? Some insurance policies will cover this, and also offer public relations expenses to cover negative publicity too.
- What about liability issues if we are sued by our customer due to a product failure, can we reach the supplier of that product? Do they have insurance cover and is it current and large enough to cover the loss?

Ensure you spend some time thinking through your supply chain and the risks that may threaten it. We can work with you to understand those risks and plan how best to mitigate them with insurance or supply chain/business interruption plans. Talk to us for more detail.

EMPLOYERS' LIABILITY COVER - A MUST HAVE!

In March this year, a Kent based hairdresser was fined £3,900, with a further £3,000 in costs after an investigation by the Health and Safety Executive (HSE) revealed the business was operating without employers' liability insurance. Are you aware that you could be fined £2,500 per day for not having employers' liability cover, or face a £1,000 fine for not displaying the appropriate insurance certificate?

In most cases where a business has employees, employers' liability insurance is compulsory and covers an employer's legal liability in the event of its employees suffering injury or disease as a result of their employment. It might, for example, cover the legal liabilities arising from an injury caused by a worker's fall from scaffolding or an office worker's trip over a computer cable.

You may also find that contractors could be classed as your employees if you are in control of how, when and where they work. This may include people on work experience, volunteer workers or even friends who are just helping you out.

FEW EXCEPTIONS

There are a few exceptions where employers' liability cover is not compulsory for employers, such as if you are a sole trader employing close relatives. However, if you are a limited company employing family members, or a limited company with two or more working directors, you will need employers' liability cover.

The HSE advises an up-to-date copy of your employers' liability insurance policy must be made available at all places of business so that employees can see that insurance cover is in place.

Further information is available at www.hse.gov.uk or talk to us about employers' liability insurance.



THE ENEMY WITHIN: EMPLOYEE FRAUD A GROWING THREAT

Whether it takes the form of skimming, embezzlement, false invoicing, or bribery and corruption, Britain's businesses are coming under an increasing threat from employee fraud.

According to figures from the U.K.'s fraud prevention service CIFAS, staff fraud increased by 40% from 2008 to 2010.

In March 2012, The National Fraud Authority put the overall cost of fraud to U.K. businesses at £45.5 billion, with employee fraud taking a growing share of the overall fraud figure.

While many businesses have strong anti-fraud measures in place, factors such as the recession, developments in technology (making fraud easier to commit), and the potential damage to reputations and company profits, means fraud should be high on the risk agenda for every business, large or small.



THE FRAUDULENT ACTS TO LOOK OUT FOR

The most common employee fraud listed by CIFAS was shown to be dishonest action to obtain a benefit by theft or deception. Typically this could be stealing money from a customer, or from an employer via skimming for example, where an employee may divert funds from a customer before recording the transaction in the company's accounts. Other activities to watch out for include false invoicing where employees might collude with suppliers; overstating or claiming for fictitious expenses; payroll fraud where the employee is paid for work not performed; cheque/bank transfer tampering; bribery and corruption such as bid rigging for example; or simply the theft of stock and physical assets.

REDUCING THE RISK

So what can businesses do about fraud? Strengthening internal controls is an important part of the risk management process to try and stop the fraudulent activity in the first place - consider the following:

- Tighten computer security, with stricter controls over sensitive areas.
- Ensure regular checks of systems and accounts are undertaken.
- Make it policy for all staff to take at least two consecutive weeks' holiday per year, so that some areas of the business aren't just accessed and controlled by one person all year.

INSURING THE RISK

In conjunction with risk management controls above, you can reduce your exposure further by having fidelity guarantee insurance to cover exposures such as theft, employee dishonesty and forgery. Full commercial crime insurance is also available to provide more comprehensive cover for areas such as loss of pension scheme funds and fraud committed by third parties.

Protect your business against the risk of employee fraud and call us for more details on fidelity guarantee or commercial crime insurance.

"THE MOST COMMON EMPLOYEE FRAUD LISTED BY CIFAS WAS SHOWN TO BE DISHONEST ACTION TO OBTAIN A BENEFIT BY THEFT OR DECEPTION."

INCREASED METAL THEFT RISK FROM VULNERABLE PROPERTIES

If you have been delayed recently on the train due to a trackside metal theft, you'll know that metal theft has become a particular scourge in recent years. But it's not just copper wire from train signals that is at risk; there are also increasing incidents of theft of metal from vulnerable and vacant commercial properties.

Zurich Insurance plc reports that since 2004 there has been an increase of over 2500% in the total cost of metal theft losses over £25,000 amongst its real estate clients. Similarly, Ecclesiastical Insurance, which insures 96% of Anglican churches in the U.K., has received more than 11,000 metal theft claims from churches since January 2007, costing in excess of £28 million.

Metal theft from commercial buildings can have a number of damaging consequences such as the cost of remedying damage and water damage that might result from the removal of pipes, lead from roofs, external air conditioning units and/or boilers etc. As well as being costly to replace, the damage caused and downtime to the business, will cost far more than the value of the items stolen.

WHICH BUILDINGS ARE MOST AT RISK?

The buildings most ordinarily targeted by metal thieves are vacant factory/warehouse and retail warehouse type properties. But even offices can be vulnerable. The table below will help you assess the risks to any unoccupied building associated with your business and the levels of security you should consider as standard.

To discuss your premises' insurance and security requirements, please contact us.

BUILDING VALUE/TYPE	<£1,000,000	£1,000,001 - £2,500,000	£2,500,001 - £5,000,000	£5,000,001 -£10,000,000	>£10,000,001
Office in financial/city centre					
Office in office park					
Retail high street type premises (including estate agents etc.)					
Retail warehouse					
Industrial unit/warehouse					
Factory unit with high power use provisions					

LEVEL OF SECURITY

-  - Standard unoccupancy precautions
-  - Standard unoccupancy precautions
 - Approved intruder alarm protection
 - Concrete blocks to prevent vehicular access to the site, where appropriate
-  - Standard unoccupancy precautions
 - Monitored CCTV and/or
 - 24/7 security guarding
 - Concrete blocks to prevent vehicular access to the site, where appropriate

Source: Willis Real Estate Practice Newsletter – April 2013

SMALL BUSINESS DIRECTORS: COULD YOU BE LIABLE?

If you're a director for a small firm and your business is sued, you could find yourself personally liable. Claims can come from employees, clients or even fellow directors and might result in you suffering financial loss.

Take a look at these two claims scenarios prepared by a Lloyd's of London insurer*:

- An employee was involved in a fatal accident at work. The Health and Safety Executive and the heirs to the employee's estate brought legal action against the company and the directors personally for compensatory damages.
- A fire destroyed a company's premises. Unfortunately the director responsible for arranging the company's insurance had failed to keep the insured values up-to-date meaning the premises could not be rebuilt with the insurance proceeds alone. The other directors decided to sue their fellow director.

Examples like these are where Directors' and Officers' Insurance (D&O) can prove to be invaluable. D&O insurance will cover individual directors in the event that they are personally sued as a result of the decisions they have made for their company. More importantly, a policy will pay defence costs as well as damages, although the policies do not cover fraudulent, criminal or intentional non-compliant acts.

Remember, it's not just your business that can be sued. For more information on D&O insurance, call us.

* Catlin Group Limited

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