



**A SHORT GUIDE ON SELECTING &
GETTING THE BEST FROM YOUR
COMMERCIAL INSURANCE POLICY**

This short guide contains some tips on how to select the right insurance policy, how to prepare to use your policy & how to claim on your insurance policy.

INSURANCE IS ONLY
USEFUL IF **THE POLICY
DELIVERS** WHAT YOU
NEED, WHEN YOU NEED IT.

ONLY **YOU** CAN DECIDE
IF YOUR INSURANCE
DOES THIS.



Insurance Essentials List



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✓ Pick the right policy

Here are a few things to consider:

Choose a qualified broker

Go through a broker for objective and independent advice.

Ask your broker:

- What qualifications and experience do they have?
- What professional entities do they belong to? (e.g. IBANZ, ANZIIF)
- How many companies do they represent?
- How are they paid?
- What claim settlement services do they have?

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

A good broker will help to ensure that your policy will deliver what you need, when you need it.

Choose a reliable insurer

Choose an insurer that has good financial stability. Insurance companies can fail following large events and you could end up with no cover.

The Reserve Bank maintains a register of licensed insurers in New Zealand.

See www.rbnz.govt.nz/regulation_and_supervision/insurers/register/

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Insurance Brokers: An insurance broker is an objective, independent individual or organisation. Brokers are paid either by commission (by the insurance company) or at an agreed fee (by the client). Brokers are different from *insurance agents* who represent only *one* insurance company.

“We’ve got a very good insurance broker. We received a cheque in about three days.”

– Manufacturer, following 2011 Canterbury earthquakes, NZ.

● Know and cover your risks

Organisations face many different hazards – earthquakes, floods, power cuts, loss of critical suppliers, fire etc. – and the impact of these will be different for each of us.

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

- When will these happen? Once a week or once every 20 years?
- Will your property and contents be damaged?
- Will your business be able to continue operating?
- What will your financial and non-financial losses be?
- Will you lose reputation or repeat customers?

Consult with staff, your accountant, lawyer and engineers to determine your risks.

Ask your insurer or broker how your risks could be covered by different insurance policies.



Your material damage insurance premiums (annual fee) and deductibles or excess (the amount you pay when a claim is made) will depend on how vulnerable your building is to hazards.



Get an engineer to estimate the cost of protecting your property against hazards like floods, earthquakes, fires and snowstorms. Compare this cost against your insurance costs: with and without property improvements. You may find it is worth investing in an upgrade of your building.

“We’re not that well covered by our insurance either. You think you are but, yeah...”

– Retailer, following 2011 Canterbury earthquakes, NZ.

● Remember to consider large disaster events

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

● What effect would this have on your business?

- Ask your broker or insurer if your specific disaster risks can be covered? For example, is your souvenir retail business protected for loss of profits if tourists stop coming to town?
- Ask your broker or insurer if your business interruption payments will be reduced for 'depopulation' or 'loss of access'?
- Ask your broker or insurer if your 'additional cost of working' allowances will be sufficient to cover post-disaster rent increases.

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Following a disaster, insurers often adjust business interruption payments because they believe your earning power is reduced due to changes in customer behaviour and access restrictions.

This is often referred to as 'depopulation' and 'loss of access'.



Use up to date information to calculate the cover needed, including...

- Building and demolition costs: vehicle and contents replacement costs (material damage policies), and
- Business records (business interruption policies).

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Material damage policies: Material damage policies cover damage to buildings, vehicles and contents.

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Business interruption policies: Business interruption (or consequential loss) policies cover loss in business revenue as a *direct* result of material damage. Generally these policies include cover for additional costs of working, such as costs incurred in relocating to alternative premises. Business interruption policies may also include (or can be extended to include) items such as loss of access and contingent business interruption (this covers disruption to supply chains).

“We had insurance for... the depreciated value of equipment and plant, not the actual replacement costs.”

– ICT organisation, following 2011 Canterbury earthquakes, NZ.

● **Think about how much time you will need to get your business up and running again.**

Some businesses are more dependent on their property than others. Businesses like manufacturers may need a long period to get specialist buildings and equipment. Small professional businesses, such as accountants, may find it easier to relocate and begin operation.

Make sure your business interruption period and temporary accommodation allowances are long enough to cover your needs.

● **If you are a tenant – know your rights**

As a tenant, it is unlikely you will be able to settle your business interruption claim until your landlord's material damage claim is settled.

Consider:

- A longer business interruption period, and
- A clause in your tenancy agreement that terminates your lease following a damage event.



● Choose the right settlement options

● What will you need after a disaster?

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. Consider an 'indemnity' policy if you want a total loss payment which you can use in any way you choose.

● How quickly would you need cash if your building was damaged?

If cashflow is critical to your organisation's survival, then consider an 'indemnity' rather than '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 a damage event. Ideally your policy coverage should be automatically reinstated at the time of damage.



It will not be possible to cover all risks.

You will need to decide how much cover is reasonable and be prepared for events larger than this.

Material damage policies can be either indemnity, which covers your property up to its present day value, or they can be full replacement, which allows for full replacement of your property.



Remember: once you have selected your policy, read it, understand it and keep it on hand. If anything is not clear – ask your insurer or broker to clarify it.

Prepare to use your policy

Now you have the 'right' insurance policy you need to regularly review it and include the policy as part of your business continuity planning.

Update policy regularly

Building and business costs and risks change all the time. Update your policy regularly. Schedule an annual review with your team and broker.

Include insurance in 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:

- What information do we need to provide with an insurance claim?
- Who will prepare and manage the claim?
- When will we get our insurance payment?
- What costs will the insurance cover?
- What costs will insurance not cover? How will we finance these other costs?

You will need good financial and inventory records etc. to claim on business interruption policies.

You must maintain these regularly and make sure this information will be accessible after a disaster.



**Have electronic records backed-up off-site.
Keep copies of essential paper records
off-site too.**



Following a big disaster, insurance will likely not cover all your losses. Indirect losses such as loss of customers and loss of access are generally not covered.

Have a plan in place to finance and minimise these potential non-insurable losses.



Remember: insurance is not a magic fix!

“I think where bar owners ran into problems was where they’re not putting things through the books... they [insurers] only give you money for what you actually put out [in the books].”

- Bar owner, following 2011 Canterbury earthquakes, NZ.



✓ Know how to claim on your policy

● Assign someone to manage your claim

Claims settlements can be time consuming. Allocate someone in your organisation to manage the process. Most insurance policies have an allowance for you to engage a professional (such as a claims preparer or accountant) to prepare your claim. Use this!

● Manage your time

Your business interruption period is finite. Try to ensure your material damage claim is settled (and repairs made) before the completion of your business interruption period.

In a large disaster it could be a long time (years) before you see your insurance payment.

Keep your organisation moving forward during this time.

● Include your staff

Keep your staff up-to-date with insurance matters. It is helpful if staff understand and correctly account for what is and isn't an insurance cost. This will help when settling claims and will help staff to understand where your business is at and why.



Sometimes, following a major crisis there is an opportunity or need to change and adapt your business. It is easy to get swept up in maximising your insurance payment – to get back to where you were.

Direct your time and energy into taking your organisation to new and better places.

**“I just argued and argued with them
[insurers]. I just didn’t have the energy.
I was beside myself.”**

– SME owner, following 2011 Canterbury earthquakes, NZ.



Remember: always focus on what is best for your organisation long term.

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.

Further information:

Organisational Resilience

www.resorgs.org.nz

Insurance

www.icnz.org.nz/for-consumers/commercial-insurance

Insurance brokers / Financial advisors

www.ifa.org.nz

www.ibanz.co.nz

www.fma.govt.nz/help-me-invest/getting-financial-advice

[www.rbnz.govt.nz/regulation_and_supervision/insurers/
register/](http://www.rbnz.govt.nz/regulation_and_supervision/insurers/register/)

This guide was developed by Resilient Organisations – a public good research programme based in New Zealand. We have been researching what makes organisations resilient to crises since 2004.

Resilient Organisations is a collaboration between top New Zealand research universities, particularly the University of Canterbury and University of Auckland. We are funded by the Natural Hazards Platform and supported by a diverse group of industry partners and advisors. We are a multi-disciplinary team of over 20 researchers, representing a synthesis of engineering, science and business leadership aimed at transforming organisations into those that both survive major events and thrive in the aftermath.

See **www.resorgs.org.nz** for further information

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