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## Do you have enough insurance for your small business?



**Underinsurance remains a serious issue for small businesses, with the Insurance Council of Australia's (ICA) statistics showing 12.8 per cent of small businesses and 24 per cent of sole traders have no insurance. Organisations operating in the education sector have the highest rate of non-insurance at 25 per cent of entities in this industry with no insurance.**

John Clark is Steadfast's Broker Support Manager. He quips, "few business owners wake up and say, 'let's buy some insurance.' They buy stock, IT equipment or hire people. But only rarely will their thoughts turn to insurance. But this is short sighted, because if something happens to your business and you don't have the right insurance cover, its existence could be threatened."

### **How much is enough insurance?**

When taking out insurance, one of the most important things is to ensure [assets covered](#) by insurance policies are accurately valued. Most businesses will have receipts to prove the cost of things like computers, plant and equipment and stock. But, for assets with a depreciated book value, it's important to ensure replacement valuations are accurate.

"It's a good idea to involve a valuer to make sure insured items are accurately valued. Many businesses have a record of an asset's depreciated value for accounting purposes. But should a fire destroy a building, it's likely the cost to replace a piece of manufacturing equipment will be substantially higher than the book value," says Clark. "If the insurance policy only covers the depreciated value and the business has to replace the asset after a fire, the cost of the equipment will be far higher than the book value, and the business could be substantially out of pocket," he adds.

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### **Be prepared**

Clark says one of the reasons why underinsurance is a problem in small business is all too often, people think it [won't happen to them](#). "But if you're one of the people it does happen to, you will thank your broker and valuer who helped you get the right outcome. Because having the right insurance in place puts you

back in business without having to borrow or dip into your cash reserves,” he explains.

### **Take time out to do your research**

Another reason why small businesses don't insure themselves properly is because business owners are so busy running the company day-to-day, they think they don't have time to get proper valuations done.

Says Clark: “We urge all small business owners to take the time to ensure their assets are properly valued either by using a valuer or by ask your major equipment's vendor what it will costs to replace it. Someone must do that work.”

It's also essential to thoroughly think through how long it would really take the business to get back on its feet in the event of a major accident such as a fire. For instance, let's assume a factory's plant and equipment was destroyed in a major blaze. It may take up to 12 months for new equipment to be built and installed. The business continuity/interruption insurance should account for this and make provision for the enterprise to be unable to generate income during this period. This helps ensures the business' survival into the future, and means it can meet its commitments and pay its staff and other outgoings.'

Overall, what's key is for businesses and their broker to thoroughly review the enterprise's exposures to be confident its insurance and the cover it provides means the enterprise can survive and thrive into the future after an insurable event.

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