Insuring Against Financial Loss

Checklist Description

This checklist looks at ways of insuring against financial losses arising consequentially from an incident.

Definition

Every business faces a unique combination of exposures. The overall impact of an incident can reach far beyond the immediate damage to property and be far more expensive and harmful to the company than the original loss.

Policies covering these areas are often grouped together as “miscellaneous financial loss” or “contingency” insurance. A combination of policies may be required to cover these consequential losses in tandem with a business continuity plan. It will be necessary for the company to weigh up the risks from self-insuring (i.e. having an emergency fund for such contingencies) or buying cover from an insurer.

Checklist of Financial Risks That Can Be Covered

Weather

Some types of business, particularly in the construction, leisure, and agricultural sectors, may be adversely affected by unfavorable weather conditions.

Business Interruption

 Interruption insurance can fill the gaps in existing policies. It can cover both the continuing and emergency costs faced by the business along with loss of income arising from an enforced shutdown.

Breakdown of Machinery

The failure of specialist machinery can lead to losses considerably greater than the cost of repair if it affects the output of the business.

Credit Insurance

Domestic and export credit risks can be covered through a commercial risks policy. This provides protection against events such as a customer becoming insolvent or defaulting on payment for a prolonged period, or a political event delaying or preventing payment.

Crime

A company can be covered against third party theft, employee dishonesty, forgery, copyright theft, and so on. Particular attention should be paid to ensuring that it is not only forced entry that is included in the policy as a larger proportion of crime is committed by insiders than by third parties.

Theft and Personal Injury

Robbery, attempted robbery, and injuries resulting from these crimes can be covered whether they occur on a company’s premises, in or out of working hours, or when cash is being transported from a bank safe or from a company strong room.
Key Man Insurance

Many businesses are reliant on particular individuals. Key man cover protects against losses arising from their death or long-term illness. The types of loss that may be included are profits, the cost of hiring a replacement, and the delay before the replacement starts to make a contribution to profits.

Kidnap, Ransom, and Extortion

This type of cover is particularly relevant to companies operating in certain high-risk territories. Companies are often less than transparent about policies that include ransom insurance for fear that it will be seen to encourage kidnapping and extortion.

License Loss

Establishments such as bars, restaurants, hotels, clubs, and casinos are vulnerable to loss of license. Cover may be available against this eventuality.

Cyber Insurance

In recent years there has been an increasing risk arising from so-called “cyber crime.” This includes damage from hack attacks, viruses, and defamation. These can all have an effect on profits, as well costing money to resolve and potentially causing damage to third parties.

Single Project Insurance

Sometimes a company faces a specific collection of risks arising from a single major project. A construction company, for example, that wins a government contract may face a combination of public liability, funding, and penalty risks—cover against which may be rolled into a single, limited-time policy for the duration of the project.

Advantages

- It is possible to insure against almost every eventuality and business risk.

Disadvantages

- The cost of such cover would be prohibitive. A risk profile should be drawn up to analyze which areas of the balance sheet it is cost-effective and appropriate to insure.

More Info

Books:


See Also

Checklists

- Corporate Insurance Cover: A Primer
- Insuring Against Business Interruption
- Stress Testing to Evaluate Insurance Cover
• Understanding the Components of an Insurance Contract

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