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# Insuring to ensure continuity

- **Many** SMEs remain under-insured despite some improvement in recent years
- **Both** general and life insurance are important for business continuity
- **Insurance** for SMEs moving towards flexibility, with customed benefits and coverage limits



by  
**Calyn Yap**

**I**N the past, SMEs tended to under-insure their business, believing insurance to be an unnecessary expense.

That has taken a turn for the better owing to the efforts of intermediaries/agents over the years, as SMEs are now more prudent in reviewing the sum insured on an annual basis, especially when it comes to conducting periodic valuations of their properties and machinery.

Although SMEs are now more aware of the need to insure their business and most have some form of insurance, most remain under-insured when it comes to risks in business continuity.

Zurich Insurance Malaysia Bhd senior vice-president and general insurance market management head Junior Cho says: "SMEs are still heavily under-insured. People devalue the risks that can potentially happen to their business."

"They are aware of the risks they face in certain areas, but they are ignorant of similar hazards that could present themselves in other aspects," says Allianz

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General Insurance Company (Malaysia) Bhd chief underwriting officer Rafliz Ridzuan.

While SMEs may ensure they have adequate insurance coverage for damage to material possessions via the property damage cover, for example, they do not anticipate the risk of disruptions to business continuity that may result from damage to property.

As such, they neglect to protect themselves against financial losses

arising from property damage via business interruption or consequential loss insurance.

Rafliz says this is because they do not realise it can help protect against financial loss and may also pay for standing charges and increased costs until it is business-as-usual. This is where products such as business interruption or consequential loss insurance can come in.

"Another related risk is the contingent business interruption (CBI) or interruption of business at the premises of a client or supplier.

### Insuring against supply chain disruption

"Insurance for CBI provides the necessary support in supply chain management and reimburses the company for lost income and additional expenditure incurred through the disruptions," he adds.

In the current competitive and challenging environment, Rafliz admits that cost is a major factor, which is why SMEs may consider insurance as an additional cost.

Nevertheless, he points out that the ongoing phased dismantling of the fire tariff may see premiums becoming more competitive with product innovation.

"Also, where SMEs manage their risk exposures well, discount factors may be applied accordingly. SMEs face an ever-changing risk landscape

in which supply chain disruption, damage or disasters is a huge concern. Simply wanting to protect what has been diligently built should be reason enough to start looking for products that will safeguard their business before

the untoward happens," Rafliz explains.

### Managing cashflow woes

A less common approach to insurance for SMEs comes in the form of life insurance, specifically group term life insurance and key man insurance.

SMEs tend to neglect employee health and benefits (EHB) initiatives, but neglecting coverage for employees can be a vital operational risk. Conversely, the advantages are two-fold, as it ensures business continuity and plays a role in retaining talent at the same time.

Tokio Marine Life Insurance Malaysia Bhd CEO Toi See Jong says many SME employers think group term life insurance is very expensive, but that is a misconception. Contrary to popular perception, it is not expensive or unaffordable to buy group term life insurance.

"SMEs are not aware of the need for life insurance. Even if they are, they make the assumption that it's expensive.

"They don't realise it's affordable, only 0.2% to 0.3% of payroll. It's a perception issue, but what they don't realise is that group term life insurance is cheap and provides cashflow to employees as well," he shares.

It is also directly linked to business continuity as life insurance in the form of key man insurance can be invaluable to managing cashflow concerns.

For example, he says SMEs typically start business with a loan where the owner is usually the guarantor, and with such coverage, the insurance company can pay back the loan when the owner passes away.

Should a shareholder pass away and the other shareholders need to buy over the shares, the policy would be able to provide cashflow for the business as well.

Toi says: "It is business as usual with fire insurance and general insurance, but what happens when the key people are gone? That's when key man insurance can come in.

"It can also be an incentive

for key executives to provide cashflow, but if nothing happens, the policy can be reassigned back to key executives as a bonus. All these are considered expenses, so they're tax deductible."

For SMEs that really care for their employees, Toi says, the first thing they should do is to provide their staff with hospitalisation and group term life insurance. FocusM



**Rafliz says smaller companies tend to neglect to protect themselves against financial losses arising from property damage**

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