

What do I purchase from Insurance Companies?

Regularly, I ask prospective clients of mine why they are purchasing an insurance coverage, and the diversity of answers is quite staggering!!

- I can not be a member of my Association unless I provide evidence cover has been taken?
- My landlord requires that I have coverage in force?
- My father/mother/sister/daughter/financial adviser told me I had to?
- To meet the requirements of some contract?
- I wanted to make sure that my assets were covered from fire & burglary
-and the list goes on.

Of course all of the above are very valid reasons for purchasing insurance coverage, depending on the individuals requirements at a particular time, but none solely outline the principal product that you get when you purchase insurance (and no – surprisingly it is not the notorious “fine print” in the insurance policy itself that is your product!!)

When you purchase insurance, the end product should be *“Peace of Mind”*. Whilst all of the above may be bi-products, insurance is provided for no other reason than this.

What is amazing is that so many people, whilst subconsciously aware that this peace of mind may be what they are searching for, forget this ultimate goal in passing over their hard earned money in exchange for an insurance product – in fact in a lot of cases they are prepared to erode substantially the benefits that come from “peace of mind” in order to achieve minimal savings.

Now I am not suggesting for one second that you go overboard, purchasing every possible insurance product available (including a specific policy covering for the event that a “Blue Elephant may fly into your salon” or against “Aliens choosing your premises to destroy from out of space”) – far from it!! What I am suggesting is that if you are going to purchase protection to provide you peace of mind, you need to go through a process to ensure that the end result of the coverage provided is tailored to meet any risks or concerns of events that may occur, which could provide a serious impact on your business and/or lifestyle.

I would suggest to you that a simple but effective means of ensuring that this is achieved is by following a number of straight forward steps. Yes – it does mean that you will have to take some time out to stop trading for a moment to fully analyse your business operations – but this is something that any successful business person has to do on a regular basis to ensure that they are on the right track. The risk of not taking time to

review your operations regularly, and to ensure you are satisfied with the exposures your business faces, is failure and/or bankruptcy –neither would be fun to go through!

The first point that I would raise and ask you to accept is that purchasing insurance should not be seen at any time as a **total solution** – it is not. Insurance is only one of many options that you have at your disposal for what I term “Risk Management” – a phase that means so many different things to so many different operations.

The Risk Management I speak of is exactly what it states to be – a management tool in handling Risk. Insurance is only one of a number of ways that risk can be managed, as I will outline below – in fact it is my belief that insurance should be the last resort in resolving potential losses that may occur.

The first step is to look at your business from every angle and assess what the possible exposures are that would have a substantial impact on your operations – in other words, **identify your exposures**. The best way I have found to do this is to ask a series of “what if” questions:

- What if a fire started in my salon/premises?
- What if someone broke into my salon premises?
- What if someone was injured whilst in my salon/premises? An employee? A customer?
- What if I injure someone whilst providing a treatment?
- What if I give incorrect advice?
- etc. etc.

Once you have gone through a comprehensive list of “what if” questions, you need to **analyse** each of these answers and rate the risk as high, medium or low. In rating on this basis, you also need to take into account the severity of the possible loss (how seriously such an event would harm your business), and the frequency with which it might occur in the policy year. The best way of doing this is through a worksheet, an example of which follows:

Possible Loss	Frequency	Severity
Fire	Low	High
Burglary	High	Low
Treatment Injury	Low	High
Motor Vehicle Accidents	High	Low
Loss of Money	Low	Low
Personal Injury to you so you cant work	Low	High
Storm Damage	Low	High
Breakdown of Machinery	Low	Low

Once you have completed this exercise, you will be aware of how important it is to your business to deal with each exposure through Risk Management techniques.

There are no correct answers to these questions, and they should vary from one client to another. It is for this reason that, in general, I am against “off the shelf” insurance products which claim to cover the risks of “all beauty therapists”. Let me give an example:

Would the risk provided by a salon on the 5th floor of a modern building with security card access to both the lift and building, monitored alarm system, deadlocks to the office door, regular security patrols with minimal contents and stock, be at the same risk of malicious damage and/or burglary as a salon, in a known area of crime, without any such security, holding a \$250,000 IPL or Microdermabrasion machine? Would you consider that these would identify as the same risk? Not likely, and yet a packaged insurance policy in some cases may attempt to say they are the same risk.

What if the \$250,000 IPL machine was kept in the back seat of a vehicle with only a windscreen between it and theft?? Would a packaged insurance company policy automatically cover such an exposure? Again, not likely. The importance of having an insurance policy which is specifically tailored to your identified exposures can not be over-emphasised. Whilst the easy way out is to purchase an “all in one” standard insurance company product, do not expect it to provide the peace of mind we discussed above.

Having completed this exercise of identification and analysis, you can commence the risk management exercise, again asking yourself the following questions:

Is there any way that I can **eliminate** this exposure altogether so it no longer concerns me? One of the simplest ways of handling an exposure is to delete it from existence. This sounds very basic, and yet the number of companies that do not eliminate a risk when they have the chance to is amazing.

I am aware of some clients who previously used to worry about expensive equipment they stored on the premises, although they would use it only one time a year. When I asked why they offered the treatment at all, they advised the previous owner of the salon offered this treatment, and therefore thought they should as well. When asked to weigh up how much the machine was costing them against the money it produced, they calculated they were suffering a substantial loss from offering this treatment, and yet it offered a high exposure to theft/malicious damage/fire/etc. They sold the machine and eliminated the risk, whilst also reduced a significant cost burden on their business.

If you can not eliminate the risk, can we **minimise** its impact? This is again best illustrated by example.

A prospective client was complaining about the cost of their insurance due to the number of burglaries that they had endured. It had now gotten to the stage where insurance companies were not prepared to offer cover at all due to the history of break ins. They did not want to move as the client potential in the area was of benefit, and they liked the area itself.

When I asked whether they had considered using deterrents to theft such as monitored alarms, surveillance equipment, sensors, security patrols, etc., they advised this was far too expensive. However, when we looked at the cost of the equipment verses how much their premiums had increased over the past three years, the increase in the premium costs alone would have paid for the protection. Once installed, the losses ceased, the client quickly built up a positive claims experience, more insurance companies were prepared to quote their business, greater competition was generated, resulting in lower premium costs and broader policy coverage.

If you can not eliminate or minimise the risk, **transfer** it. The most common way of doing this is through insurance, where you are passing your exposures over to the insurance company for an agreed price. However, this is not the only means of transferring risk, in that an ever increasing number of clients are transferring their exposures by contract. Examples of this would be a Landlord passing on his liability obligations onto a tenant through the tenancy agreement they are asked to sign, or a manufacturer making the distributor responsible for liabilities arising from the making of the product.

Insurance is by far the most popular means of transferring risk, although not all risk is best suited to be transferred to an insurance policy.

For example, if a risk is high in frequency and low in severity (ie. low in cost), the continual flow of such losses through insurance can become a “money swappng exercise”. What will happen is that the insurer will pay out on such claims for the minor losses incurred, but then seek higher premiums at renewal to recoup such losses. All the Salon Owner is doing is claiming money which will be returned to the Insurer through increased premiums, whilst building an unsatisfactory claims history. In such cases, I would suggest that the client does not claim on such regular losses, but finds a way of eliminating or minimising such losses. In fact, I would suggest the client takes elects to take a higher excess and use the savings this creates to pay for the methods of reducing or eliminating this risk.

One more step remains – **review** at regular intervals, and at least once a year. Circumstances change regularly whether internally (eg. Change of procedures or treatments, etc) or externally (laws & regulations, insurance conditions, etc) and you need to continually review this process to ensure that your risk management will work on your behalf.

If you wish to have such an analysis completed on your behalf for your exposures, please do not hesitate to contact the writer. We currently have a competition in force where any business that forwards a copy of their existing insurance program and business card to our office for such a review at no initial cost will be in the draw to win twelve (12) months free membership to the largest and most professional Beauty Therapist Association in Australia, being the Association of Professional Aestheticians of Australia.

