

iaAdvice

Insurance Advisernet Client News

Welcome to
our first
edition

WELCOME TO OUR SECOND NEWSLETTER

Before we start, congratulations to Julian Buttrose of Buttrose and Associates in Sydney who was the winner of our ipad competition. His prize was a top of the range ipad2 complete with smartcover.

In this issue of the newsletter, we present part 2 of our interview with Keith Till and Alan Manning – “Weathering the storm”

Also, we present the first of our general business tips articles – this one from acknowledged cash flow expert – Joss Milner – who has advised banks on 4 continents and understands how critical cashflow is to successful business.

You may recall from Issue # 1, only 16% of all businesses in Australia carry management liability meaning 84% are risking their business on issues such as harassment, bullying, unfair dismissal, fines and penalties and more.

Simply enquire about management liability for your business, and you'll go into the draw for a \$500 Coles Myer voucher.

Adrian Kitchin – Director, Operations IAA



WEATHERING THE STORM – PART 2



For back issues of the newsletter, please visit our website and download a PDF version. In issue #1, we presented the first half of this interview with Keith and Alan. Now the conclusion...

QUESTION:

FOLLOWING A CATASTROPHE, 40-50% IS A VERY HIGH FAILURE RATE, WHAT ARE SOME OF THE REASONS FOR THESE FAILURE RATES?

ALLAN MANNING:

Another gap caused by the “it will never happen to me” syndrome is the very low level of business interruption insurance. Our own research at the LMI Group highlights that only 40% of small-medium businesses actually have business interruption insurance. Data from CGU Insurance shows that, of that 40%, only 2% have adequate business interruption coverage.

KEITH TILL:

Our data at Zurich shows that businesses only have a 1 in 10 chance of surviving a major crisis/ disaster if they do not have business interruption insurance. Business owners must realize that their business pack insurance is not enough coverage to survive a crisis like fire or flood. While it will cover the rebuilding and re-tooling of the business site, during the reconstruction process, who will cover the following;

- Loss of trading time and income during reconstruction,
- Regular outgoing costs such as loan repayments,
- Customers lost during the inability to trade,
- Retention of good staff during the inability to trade,
- A regular income for the owner to continue living as normally as possible.
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Only business interruption insurance covers this and yet most small-medium businesses do not purchase the product, again leaving the owner with an unnecessary level of exposure.



QUESTION:

SO, IF A BUSINESS IS NOT INSURED FOR THE FULL VALUE AND THEY HAVE NO OTHER INSURANCE SUCH AS BUSINESS INTERRUPTION OR DIRECTORS & OFFICERS LIABILITY, WHO CARRIES THE FINANCIAL LIABILITY, WHO PICKS UP THE BILL?

ALLAN MANNING:

Essentially, we call this self insurance. The business owner has made decision not to purchase certain insurance products and has therefore agreed to accept full personal and financial liability in times of a disaster or crisis. In other words, their personal assets such as the family home will be required to pay the bill. Is insurance about price or is it about protection. Insurance is not just about the cost of the premium! At the time of a disaster, it is about the excess, uninsured losses, and under insured losses. So what are you saving versus what you are putting at risk? Is it worth the peace of mind to know that you are fully insured and covered? And let's face it, an insurance premium is tax deductible so the tax man pays 30% of the premium anyway.

QUESTION:

SO, WHAT IS THE SOLUTION FOR SMALL-MEDIUM BUSINESS OWNERS?

KEITH TILL:

Get good advice from a trusted insurance adviser, assess all of your risks, and compare all available policies relevant to your business. I understand that in a tough economic climate, people want to keep costs down and have their insurance premiums to remain the same as previous years. Insurance may actually be seen as a "grudge purchase" given that their chances of experiencing a major crisis is 1 in 20 or 1 in 50. But our job as Insurers is to insure business owners to reduce their personal liability as if they are that one person in 20 or 50 that will experience damage and loss.

REVENUE IS VANITY, PROFIT IS SANITY, CASH FLOW IS KING!

BY JOSS MILNER CA



Cash flow is probably the biggest blind spot of most businesses. What is a blind spot? A blind spot is something in your business that someone knows more about than you do. When it comes to understanding your cash flow, your bank knows more about your cash flow than you do!!! Even if you do not have borrowings, your cash flow is as critical, remember your profit is an opinion your cash flow is a fact.

Remember that your business's cash flow can be very different to your profit. Your cash flow is a result of your profit as well as the changes in your balance sheet, such as increase in stock or debtors. If you buy something for \$120 and sell it for \$200 you have made a profit of \$80, but if you do not collect the money from the sale, your cash flow is zero. If you have to pay the \$120 before you collect the \$200, your cash flow is actually negative \$120.

One of the major issues regarding cash flow is the fact that there are so many definitions of cash flow. If 100 business owners were given a set of financials and asked to calculate the business's cash flow, we would get more than 20 different answers, but yet cash flow is a fact. A standard but yet simple definition would be very helpful.

THE DEFINITION OF CASH FLOW

The simplest way to think about your cash flow is the monies flowing in and out of your business. If we add up all the money you received and subtracted all the money you spent, that would be your cash flow. It is not so easy to work out this number as your accounting systems don't work that way. BUT there is a very easy way to work it out. ALL money flowing in and out of your business goes through one or more of your bank accounts.

1. Add all of your bank accounts at the beginning of the period designate this as your opening net debt.
2. Add all of your bank accounts at the end of the period designate this as your closing net debt.
3. The difference between them is your net cash flow.
4. All banks accounts mean all forms of debt, including, overdrafts, commercial bills, term loans and includes all short and long term debt. Many businesses have both overdraft and cash deposit accounts net debt is the net of all bank accounts debt or otherwise.

In the simplest of terms at the beginning of the year you owe your bank \$200,000 and at the end of the year you owe \$260,000, your net cash flow is negative \$60,000.

Once you have calculated your cash flow, you should compare it to your net profit after tax. If you have made a profit, but have a negative cash flow you need to determine why this has occurred. You need to work out where you have spent the money. Such a difference is called a cash flow gap.

A company made a profit after tax of \$50,000. Its cash flow was negative \$60,000 – this is a gap of \$110,000.

Obviously if a business continues to make profits, but yet lose cash flow eventually it will run out of funding, a negative cash flow can only be sustained for a period of time. If your business has a cash flow gap you need to understand the reason for the difference and work on closing the gap. Joss Milner is the CEO of Milner Corporation and is an expert on cash flow. Joss is a Chartered Accountant who has over 25 years experience in the area of Cash Flow working with Banks & Businesses around the world. Joss has worked very closely with banks in 4 continents and has a deep understanding of the manner in which Banks assess the cash flow of their clients. Contact him on: jossmilner@bigpond.com

IAA - ASSISTANCE FOR SMALL-MEDIUM BUSINESS



Our success has been built on personalized service and support. Your IAA Adviser will be more than willing to discuss your insurance and risk management requirements.

We conduct an analysis of your risk/needs and advise our recommendations on the correct coverage required to protect your assets and liabilities.

We objectively recommend the best insurance products from a range of the best insurance providers, matching the right insurer to you.

Our national buying power means excellent rates and a broad range of competitively priced business insurance products.

You receive local, personalized service from one of our 280 Advisers located in over 100 situations across Australia.

- Our product range includes:
- Business Package
- Farm Package
- Trades Package
- Office Package
- Professional Indemnity
- Industrial Special Risks
- Motor Vehicle
- Workers Compensation
- Public/Products Liability
- Management Liability
- Business Interruption

If you are concerned about the value of your sums insured, business interruption coverage and other liability insurance please call your IAA Authorised Representative.

COMPETITION: WIN A \$500 COLES MYER VOUCHER



If you make a specific enquiry about management liability insurance with your AR and get a quote, we will enter you in our Spring competition for a Coles Myer Voucher valued at \$500.