

# Cash

## – keep it flowing

**Cash flow is the lifeblood of a business, but not all insurers are able to provide this to an insured at the time it is needed most – when the business has been interrupted.**

By Stephen Fay

### **The importance of cash flow**

Not only does cash flow pay the owners of the business, a continued flow of cash enables the business to meet customer needs, keep payroll flowing to staff, and pay interest on any loans and debts. The ability to continue to meet loan repayments is particularly important for small company owners that secure the business loans personally.

It is not only about survival, it also underpins the goodwill of a business that has often been built up over many years. Future cash flow is the basis for any valuation for a small or medium size business.

Cash flow can be disrupted and businesses need to anticipate the effect this can have. Data from Interruption Underwriting Agencies (IUA) over the past two decades shows that one in 10 businesses will have a disruption to their cash flow in any three-year period.

### **Traditional insurance response**

What is particularly concerning is how poorly this need is often met by traditional insurance.

Firstly, there is the complicated method of calculating gross profit and estimating increased working expenses. The real difficulties start, however, when the claim happens – increased cost of working, time, excesses and then more often than not the average clause kicks in –

all resulting in expectation gaps between the insured, their broker and the insurer.

The common disappointment caused by the quantum of what is received by the insured is further compounded by time delays in settlement.

Often the business interruption claim settlement will have to wait until the material damage claim is also settled. While all this happens, the business often has to dig into its own pockets for cash to keep the business afloat. So instead of the insurance meeting the cash flow deficit, the business owner often loses more cash.

It is not surprising perhaps that only 31 per cent of SME businesses take up business interruption insurance (Cameron Research Group, 2006). Nor is it surprising that 25 per cent of businesses that recover from a business interruption claim change brokers soon after (Manning A., 2004, *Strategic Management of Crises in Small and Medium Businesses*, Doctoral Thesis, Victoria University, Melbourne).

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## CASE STUDY

A fire in the NSW Central Coast region highlighted the impact on a business from quick response times for business interruption claims.

The fire resulted in a manufacturer and distributor suffering a loss as their building was severely damaged. The timing of the fire was particularly poignant for the business as it resulted in the ruin of newly arrived stock from overseas.

IUA, due to the flexibility in the policy, was able to respond quickly to the claim to get the business up and running.

This included facilitating an overseas trip to source new stock, quickly establishing alternative premises and working closely to ensure the rebuilding of the original premises. The company was running at pre-event cash flow within 23 weeks.

An interesting by-product of the fire was the impact on another business insured with IUA operating in the same street. The fire resulted in prevention of access to the premises, and a consequent reduction in cash flow for the business.

This smaller claim was finalised and settled by IUA in the first week!

### What is the best way for a claim to be handled?

The most important business need at the time of a claim is to get the cash flowing back in the business. For example, IUA structures its offering to ensure that as soon as financial information is provided by the business, weekly claim payments will start to flow. In more than 90% of instances, IUA insureds who have a claim get cash flowing in the first three months.

Many insurers and brokers emphasise the tail end of the claim, highlighting the need for longer and longer indemnity periods. While these are clearly appropriate in some cases, equally important is the need to respond at the beginning of the claim.

IUA data highlights that through IUA claims

response, 98 per cent of business interruption claims are finalised within 12 months and 50 per cent of business interruption claims can be resolved in three months.

The aim is to have a policy that can quickly and flexibly react to an event and seek innovative solutions to get the business up and running again. ✓



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