SPRING / SUMMER 2016

COVERNOTES

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KEY BUSINESS CHALLENGES IN 2016. ARE YOU PREPARED?

2016 is set to be a challenging year for SMEs who are facing a myriad of change and uncertainty.

National Living Wage

From April workers aged over 25 will be entitled to a National Living Wage of at least £7.20 per hour. This will rise to £9 per hour from 2020.

According to Zurich around one in five SME employees will receive a pay rise in April. This will increase to three out of ten workers in 2020. This means total wage bills for SMEs will rise by around 0.3% in April.

Recent surveys have found that nearly four-fifths of SMEs believe that the National Living Wage will have a negative impact on their ability to hire staff and grow their business, while only 5% think it will have a positive impact on their business.

Whatever approach SMEs adopt, from increasing their prices, to focusing on finding efficiency savings, to hiring a greater proportion of workers under 25, there will be risks and challenges to consider.

Skills Shortage

Skills shortage also looks set to be a significant challenge for SMEs in 2016.

One recent survey by Close Brothers (a leading merchant banking group) discovered that a third of SMEs do not believe their workforce has the skills required to meet their business needs, while another study by MHA (an accountancy and advisory firm) found that more than a quarter of SME manufacturing and engineering firms believe the lack of skilled potential recruits is a barrier that prevents them from growing.

The skills shortage is a particular challenge for medium-sized companies, with 44% of firms with between 50 and 249 workers citing it as a problem in the government's Small Business Survey.

SMEs may choose to tackle the skills gap in many ways such as investing in staff training, setting up apprenticeship programmes or outsourcing parts of their businesses. Each approach brings its own challenges and SMEs need to be aware of how their business might be affected.

Gender Pay Gap Reporting

Another development SMEs need to be aware of is gender pay gap reporting.

In 2016 new measures will be enacted requiring employers with at least 250 employees to publish information about their gender pay gap.

According to PWC, carrying out a disclosable equal pay review and publishing an adverse gender pay gap could also have a number of significant and harmful implications for companies including:

- reputational damage and negative publicity
- disclosure of sensitive financial data
- impact on employee attraction, engagement and retention
- risk of significant financial damage resulting from employee claims for equal pay potentially going back over six years
- adverse impact on procurement process

The proposed penalty for non-compliance with the new measures is a fine of up to £5,000. However, according to PWC the

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associated negative publicity and employment relations risks would likely be far more damaging.

In order to protect themselves in advance of the act, employers need to carry out an equal pay audit and determine which jobs may be deemed equal. If there are any pay gaps discovered as part of the preparations, SMEs should identify the reasons why and put together a plan to address the gaps in pay.

Following these steps will not entirely remove the risk of equal pay claims, but putting right significant gaps will help to ensure that the majority of employees receive equal pay for equal work.

Compulsory Pension System

Under auto-enrolment all businesses, no matter how small, will eventually start having to make pension contributions for their employees.

Many employers have already been bought into the compulsory pension system with the most recent start-ups facing a final staging date of April 2017. However, this is not the end of the changes as the costs will continue to rise.

During the enrolment period (up to October 2017) the minimum employer contribution will be 1% of employees qualifying earnings. From October 2017 the minimum employer contribution will be 2%.

This will rise again in October 2018 when the minimum employer contribution will be 3%. If an SME has 20 employees earning £25,000 each, its wage bill will increase by £11,660 per year from October 2017.

If you do not already offer a staff pension, you can find one in the market place or use NEST (National Employment Saving Trust set up by the Government), which has a public interest function and is obliged to accept all employers. If you have existing pension arrangements for some or all staff, you can continue with that provided it is a 'qualifying scheme'.

If not already included in the scheme, SMEs need to find out their staging date. Even those who are yet to be included need to plan and budget for how they will comply with their new duties.

Britain's Future in the EU

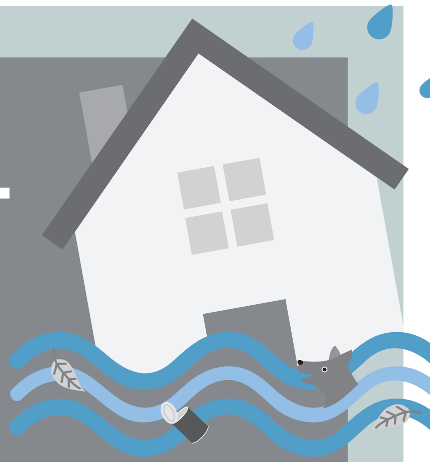
In addition the uncertainty about Britain's future in the European Union could also affect SMEs.

A referendum on whether or not Britain leaves the EU will take place on 23 June 2016. Nearly a third of SMEs say they are delaying their current investment plans as a result of uncertainty in the UK's role in the EU.

By considering the issues outlined above, SMEs can prepare for the challenges ahead now, rather than fighting fires as the year progresses.

Sources:
4 key business challenges for 2016, Zurich Insider http://insider.zurich.co.uk/industry-talking-point/4-key-business-challenges-for-smes-in-2016/
Personnel Today http://www.personneltoday.com/hr/five-steps-to-addressing-the-gender-pay-gap/
PWC http://www.pwclegal.co.uk/news/gender-pay-gap-reporting.html
Gov.uk https://www.gov.uk/workplace-pensions-employers

STORMY TIMES – WHAT DOES YOUR INSURANCE COVER?



Recent floods in the North of England have seen many people needing to rebuild their lives and their businesses. Forecasts from accountancy firm KPMG have put the costs from Hull to Lancashire at over £5bn.

York was one of the worst hit cities with many small retailers and businesses facing thousands of pounds worth of damage to stock and premises.

Insurance has a very important part to play when rebuilding people's businesses and lives. However, some businesses are finding that their insurance was not sufficient to cover all of the damage caused.

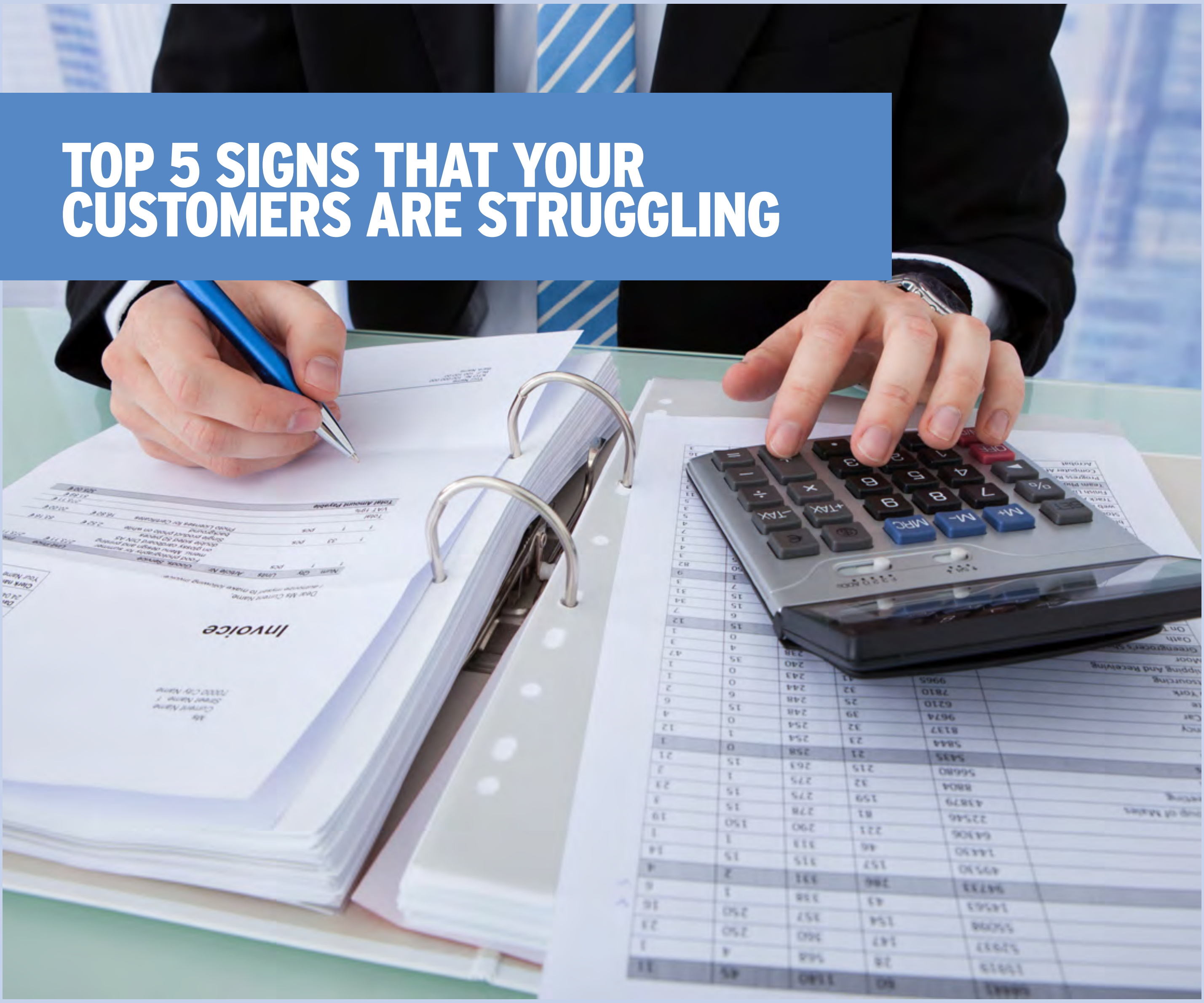
- Damage caused to basements due to rises in the water table where buildings have not been adequately waterproofed can be excluded from policies.
- Others may have found that whilst the floodwater did wash away earth and make the building unstable, as the floodwater did not enter the businesses' building, under some policies business owners may find that their claim is not valid.
- For some policies the accidental damage section of the policy may note that wear and tear and gradual deterioration are excluded. In some cases businesses may find their claims for storm damage to stone cladding or roofing are not covered as a result.
- Others may have found that they have not complied with the security warranty on their policy and therefore find their policy is voided and their flood claim will not be paid.
- Should the building have been unoccupied at the date of the flooding, other businesses may find that their claim for damage to the premises is refused. Although they have adhered to the conditions of the policy regarding un-occupancy, if they failed to inform their insurer of the change at renewal or when the change occurred, the policy could be voided from that time.
- Even where businesses appear to have flood damage to their property covered under their policy, problems can still occur when it comes to the claim being made. For example if the damage appears to have been caused by a pre-existing condition of disrepair to the roof, the business may turn out not to be covered as the damage was caused by the pre-existing condition, not the severe weather and localised flooding.

Lack of adequate insurance could easily result in the closure of many businesses affected.

Insurance policies vary widely and are sometimes very complex – businesses could fall foul of warranties, conditions, exclusions, or even definitions in their policies which could easily result in claims being denied.

One way to ensure you have the correct insurance is to arrange your policies via us. We can place the most appropriate insurance for you, advise on how to comply with all terms and conditions made by the insurer, and by properly understanding your business needs to make sure the cover is actually what you need. We can also fight your corner for you should you feel a claim is turned down unfairly.

TOP 5 SIGNS THAT YOUR CUSTOMERS ARE STRUGGLING



More than half (53%) of Britain's small-and-medium sized enterprises are owed money from late payments, with estimates totalling as much as £255 billion outstanding, according to the Zurich SME Risk Index.

SMEs clearly see late payments as one of the greatest threats they face. With two thirds (67%) of those surveyed agreeing that late payments are leading to some SMEs being forced to close down.

So how can SMEs steer clear of bad debts and unpaid invoices?

First time orders can be particularly risky. When faced with a new customer or a very large order it may be tempting to secure it without doing the necessary checks. Credit checks should be carried out to ensure your customers financial viability.

When faced with late payments you should consider if your customer is looking to change payment terms or failing to comply with your credit agreement. It is likely that they may be suffering from a volatile cash flow.

If your customer is in the process of securing new financing or changing banks, consider that they may be doing this to cover large losses. This customer should be treated with caution.

Is your customer experiencing a constant stream of checks from credit providers?

If so this may signify that the company is having trouble paying its current creditors or is desperate for credit to cover financial losses.

Non-stop excuses from your customer for not delivering payments on time may be a sign that trouble is on the way. Excuses might include problems with computers, an audit in progress or cheque signatories being away or unavailable.

If you have seen any of these warning signs or are concerned about the potential impact of late payments on your business then credit insurance may be for you. We can advise you on this.

Sources: Are your customers struggling, Euler Hermes http://www.what-is-credit-insurance.co.uk/wp-content/uploads/2015/06/5-Bad-Debtor-Warning-Signs.pdf

DON'T PUT YOUR REPUTATION ON THE LINE

Warren Buffett once said "It takes 20 years to build a reputation – and five minutes to ruin it."

Recent events show how easily reputation can be lost. Ever since Volkswagen admitted in September to cheating on diesel emissions tests in the United States, its sales and grand plans for growth have taken a nosedive. Dozens of large shareholders now even plan to sue the carmaker in a German court, seeking compensation for the plunge in its shares due to the scandal.

According to Forbes, the greatest risk facing companies is loss of reputation, with up to 75% of their value based on reputation.

Protecting reputation is something all businesses, of any size, should think about. Although it can be difficult to prepare to protect something so intangible there are steps you can take to reduce the risk and ensure that if a crisis takes place you can minimise the damage.

Think of the risks that might affect your reputation. It will depend on the nature of your business but could include health and safety incidents, operational crisis and events such as pollution, product recalls and quality control errors.

Once you have identified the risks your business could face, analyse them, determine the likelihood of them happening and the potential impact they might have on the business

Most businesses can take action to control many of the risks they face. For example training employees to reduce the risk of accidents, and/or ensuring good sign off processes.

Online reputation is becoming increasingly important for businesses and it is important to protect yours. Recent research conducted by the eTailing Group (online merchandising specialists), concluded that 85% of customers research online before deciding whether to purchase from a company.

Put a social media policy in place. Establish rules around the way any complaints, made through social media, are dealt with and ensure employees have adequate training before they post on the company's behalf.

Remember that social media can cause a lot of damage. When HMV made 190 employees redundant in 2013, the employees took to the corporate Twitter account to share the news, tweeting about 'the mass execution of loyal employees' to its 61,500 followers, before management could step in and change the password.

74% of consumers see criticising a brand through social media as a way to receive better service, according to Lithium (brand monitoring software developers).

Having a comprehensive and professional response prepared can significantly reduce or even eliminate the reputational damage. SMEs need to develop a robust response plan to address the needs of all stakeholders to ensure negative commentary is kept to a minimum.

There are also reputation protection products and advice services you can consider to protect your business. Please contact us for more information.

Sources: The Importance of Online Reputation for SMEs, Zurich and Reputation.com
Allianz Property & Casualty Newsletter January 2016 https://www.allianzebroker.co.uk/content/allianzebroker/en_gb/application/content/documents/news-and-insight/newsletters/property-and-casualty/january-2016/property-casualty-january-2016-broker/_jcr_content/documentProperties/currentDocument.res/pc-newsletter-jan-2016-broker.pdf
eTailing Group research https://www.zurich.co.uk/internet/home/sitecollectiondocuments/broker/other/rep_com_infographic_v15.pdf

ADVICE GUIDE: PREVENTION OF JET LAG

Jet lag is never pleasant and can affect a trip as you try to recover and get back on track. It is the result of your body struggling to adjust to new time zones and its effect on your sleep.

The world has 24 time zones and each time we cross one of these zones our body's natural body clock is disrupted. The more time zones you cross the worse the jet lag can be. Jet lag is generally worse when flying east as our bodies are better at coping with an increase in time (flying west) rather than a reduction.

Disruption of your natural body clock and disruption of your sleep pattern can make you tired, lethargic and sometimes confused. It can cause nausea, loss of appetite, disorientation, anxiety, memory problems, headaches and sweating.

There is no quick fix for jet lag but the symptoms will normally resolve within two days once your body clock has adjusted to the new time zone.

Prevention is better than a cure so before you travel:

- Get enough sleep – flying tired makes jet lag worse
- Keep your stress levels low – stress and anxiety can aggravate jet lag
- Change your sleep routine before you fly – try and adapt your sleep routine to your destination

In flight:

- Hydration – drink plenty of non-alcoholic beverages
- Caffeine – avoid caffeine well before you plan to sleep
- Avoid alcohol – alcohol will de-hydrate you and affect your sleep
- Rest – you should try and adapt to the new time zone as soon as possible. During the flight take short naps if you are tired as tiredness can exacerbate jet lag symptoms
- Change your watch time – change the time on your watch to the time of your destination as soon as possible. This will help you adapt to the new time zone better both physically and psychologically.

Source: Jet Lag – the curse of the time traveller, QBE http://www.qbeeurope.com/rehabilitation/blog/permalink.asp?id=225

COULD YOU HAVE AN ENVIRONMENTAL RISK?

Environmental risk is becoming increasingly pertinent for SMEs and involves a wider range of issues than are often expected.

There are now estimated to be 17,000 pieces of environmental legislation in place around the globe. New laws are constantly emerging, while old laws – which may not have been enforced effectively for years – are suddenly being enacted with renewed vigour.

At the same time, a more developed appreciation of the interconnectedness of business, society, health and environmental wellbeing is bringing more and more companies into the spotlight.

Sectors which may never before have been associated with pollution in the traditional sense, are suddenly finding themselves responsible for new environmental liabilities and risks.

An SME could be exposed to an environmental risk if it is involved in any of the following activities:

- owns, operates or buys and sells property
- operates on third-party premises
- uses, stores, transports or produces a potentially hazardous substance that may cause contamination
- creates solid, liquid or gaseous waste
- redevelops brownfield land
- operates in a bio diverse environment, such as next to a nature reserve or protected habitat.

If any of these apply and a claim is made, the organisation may find itself dangerously exposed unless it has the right cover in place.

Executives can now also be held personally accountable, potentially leaving directors and officers exposed to financial and reputational ruin. Directors & Officers cover (D&O) can help in these situations.

Meanwhile online commentators and social media pundits are ready to expose any industrial accident to a global audience within minutes, causing massive damage to brand and reputation in the process.

With these kinds of challenges emerging, SMEs in all sectors need to look at their risks and discuss them with their broker. At the very least SMEs must be compliant. Without dedicated environmental cover there are very likely to be exposures and the time to discover these is now.

Companies often assume that they are covered by their general liability policy, but without specific environmental cover they will almost certainly be left to handle a crisis – and pay for any clean-up, as well as associated works – without the benefit of insurance.

Contact us to find out more about D&O insurance and to discuss when Public Liability cover stops and cover for Environmental risks starts.

Sources: Managing Environmental Risk report, ACE and Strategic Risk

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