TOWERGATE INSURANCE BROKERS NEWSLETTER

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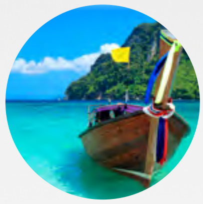
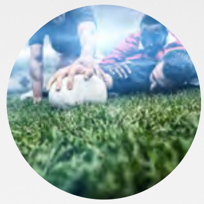


THOMAS COOK COLLAPSE HIGHLIGHTS SUPPLY CHAIN RISK



WHEN THE SHOW CAN'T GO ON

DRIVING IN EUROPE: GREEN CARD UPDATE

CYBER INSURANCE PASSES CLAIMS TEST

A recurring and entirely legitimate question from UK businesses is whether cyber insurance will pay out in the event of a claim. The recent reassuring answer from the Association of British Insurers (ABI) is a resounding yes.

Recent research from the ABI has revealed that 99% of claims made on ABI-member cyber insurance policies in 2018 were paid. As the trade body points out, this is one of the highest claims payments rates across all insurance products.

The calculations are based on the 207 cyber claims that were made and settled in 2018.

"Cyber insurance is a valuable product – the claims acceptance rates speak for themselves and the additional support a business receives, beyond dealing with the pure financial losses is a key attribute of most cyber insurance policies, too often overlooked," said James Dalton, the ABI's director of general insurance policy.

Cyber cover provides extensive services focused on preventing a breach from occurring in the first place, as well as helping with the recovery and management of costs associated with an attack.

Recent high-profile cases of cyber breaches have included attacks on British Airways and the Marriot International hotel chain, but the frequency and severity of attacks is much more widespread, according to research by insurer Beazley.

Ransomware attacks skyrocketed in the first quarter of 2019, according to the Beazley Breach Response (BBR) Services team, which reported a 105% increase in the number of ransomware attack notifications against clients compared to the first quarter 2018.

Ransomware is a type of malicious software that blocks access to a computer system or data, with the perpetrators of the attack demanding payment in order to 'release' the system from the malware.

Significantly, the report also found that the average ransomware demand was 93% higher than in 2018, with a demand of £184k compared to £95k.

Despite the growing cyber threat, the ABI noted that take-up rate of cyber insurance by businesses in the UK is still worryingly low, with the overall market size estimated at less than a tenth of the size of the UK's pet insurance market.

According to the ABI, just 11% of businesses are thought to have a specific cyber insurance policy in place, meaning millions of small businesses could be at risk.

Cyber insurance: what is covered?

Cyber extortion insurance

Will protect you if a hacker tries to hold your business to ransom with any final ransom paid, as well as the services of a leading risk consultancy firm to help manage the situation.

Data recovery services

In the event you lose any important data, we can provide data recovery services. This may incur an extra cost on your behalf – check your policy wording for more information.

Cyber business interruption

Will provide compensation for loss of income, including where caused by damage to your reputation, if a hacker targets your systems and prevents your business from earning revenue.

Hacker damage reimbursement

Will reimburse you for the costs of repair, restoration or replacement if a hacker causes damage to your websites, programmes or electronic data.

THOMAS COOK COLLAPSE HIGHLIGHTS SUPPLY CHAIN RISK

The collapse of the world's oldest travel company Thomas Cook, which went into liquidation last month under the weight of a £1.7bn debt pile, has directly affected around 155,000 customers from 18 countries who have had to be repatriated in one of the largest peacetime operations of its kind. And it hardly needs saying that the failure of the company is a personal blow to its 22,000 employees, 9,000 of them in the UK.

Yet the ramifications of the firm's failure stretch wider than this, and its bankruptcy is certain to impact some of the many hundreds of suppliers and sub contractors that did business with Thomas Cook.

One such supplier was celebrity chef James Martin, who first signed a deal with Thomas Cook in 2012 to provide a menu for its flights, which was updated earlier this year. As Martin said at the time: "it is a long process to develop an in-flight menu. In fact, getting customers to try the dishes on board is the very last stage in a 12-month process."

Other companies working in the package holiday market will also suffer in the short term. For example, On The Beach Group relied on the travel firm's aircraft for 15% of its overall flight capacity. The company issued a statement in the wake of the collapse saying it predicted a "one-off exceptional cost" as a result of having to arrange alternative travel for its guests as well as lost margin from now cancelled Thomas Cook bookings.

However, businesses can seek to insulate themselves from the risks posed by the collapse of a key supplier by looking to insurance, which can mitigate risk through covers such as trade credit insurance – a well developed product – or via supply chain insurance, which is a more recent product, but one that is becoming increasingly established.

Trade credit – or more simply, credit insurance – is there for those concerned about the possibility of being knocked by a bad debt. As we know, suffering a bad debt can cause a business to fail, so credit insurance is well worth considering if you sell a product or service to businesses on credit terms.

For example, if your profit margin is 5% and you suffer a £25k bad debt, you will need to increase sales by £500k in order to recoup the lost profit from that bad debt.

Beyond credit

Yet the ramifications of a business failure extend beyond a bad debt or debts and can affect the much wider supply chain. Here, as risk management body Airmic suggests, given the developing nature of supply chain insurance, certain products and trends are still evolving and emerging, but covers are available.

Historically, cover for supply chain risks has been a form of business interruption insurance, which offers cover for interruption flowing from damage to the insured's own property. This means an event that does not have a physical effect on the insured's property (such as DHL's failure to distribute chicken to KFC's restaurants) would not give rise to an insured business interruption loss under a standard policy, no matter how significant the impact on the insured's business.

Understanding the extent of your supply chain and assessing the real insurance need is key here, according to Otto Kocsis, principal engineer of business resilience at insurer Zurich.

"While standard business interruption (BI) policies typically provide cover for premises going offline – in the event of a fire, for instance – it is much more challenging to mitigate risk across an entire supply chain. To do this, policyholders, brokers and insurers need to estimate how much business is at risk if a supplier is not delivering as expected."

Kocsis added that, as most businesses don't rely on just one supplier, but on hundreds spread across the supply chain, underinsurance is a real risk.

WHEN THE SHOW CAN'T GO ON

This year's Rugby World Cup in Japan is a huge undertaking. So big, in fact, it is now being billed as the world's third-largest global sporting event, behind the Olympics and the football World Cup, due to the number of participating nations, ticket sales and global television audience.

Japan has invested hundreds of millions of pounds in infrastructure to make the tournament work for everybody, from stadium improvements to new roads. "We've had some independent studies done and they predict that in British pounds there will be about £2.79bn of increased economic activity around the Rugby World Cup," Organising Committee CEO Akira Shimazu said ahead of Japan's November international against England.

Yet for the organisers of the tournament, Rugby World Cup Ltd, it is vital that all potential risks are covered. From possible injuries to players and the postponement, cancellation or abandonment of fixtures, insurance plays a vital role in allowing a tournament such as this to happen.

Granted, as the weather changes here in the UK and we look forward to seasonally themed events such as bonfire night displays, Halloween parties or yuletide shows, the organisational concerns may not be on the scale of those behind the Rugby World Cup but the risk concerns are similar.

Probably the most sensible form of insurance for any event organiser is, unfortunately, event cancellation insurance. As we have seen in Japan, extreme weather or other misfortune can strike even the most well-planned event and as such it is important to consider insurance so that if the worst comes to the worst and you need to postpone or cancel an event, you will have a degree of redress.

What we offer

Our events insurance will cover you should you be unable to host your event due to cancellation, abandonment, postponement or curtailment. Whether you cannot run the event at all or if you simply need to delay it, you'll be covered according to the terms and conditions of the policy. All our events insurance policies also include public liability with variable limits and employer's liability up to £10m. This means that your business will be protected should a member of the public or an employee sue you due to negligence.

SMEs NEED TO PROTECT KEY ASSET

It is the question that no company really wants to answer: what would happen to your business if its owner or a senior member of staff died or fell critically ill?

Naturally no-one really wants to dwell on such issues, but the figures suggest that such a question is sadly one that needs to be addressed.

According to a recent survey* by Legal & General, 73% of sole traders and 47% of new businesses in the UK, think they would cease trading within six months, if they were to lose a key person.

The insurer also suggested that when the consequences of a key person's death or critical illness had been considered, over half (52%) did not think that their business would survive the next 12 months.

It's understandable why the death or illness of the owner or senior manager of a small business would impact that business so much. After all, in such companies experience and expertise are often concentrated in the hands of a small number of key individuals. As such, if one of those individuals is no longer around, then this could have an immediate impact on operational efficiency or even on the customer base, as loyal customers who were intimately connected with a particular individual might not want to continue doing business.

It is important for any small company to consider a number of issues, including a formal succession plan. This should set out how the company will manage as staff move on, not only if a key person becomes suddenly unavailable, but also what the next steps for the business are when a senior manager or managers come to step down. Planning ahead in this way should be a priority for any firm and is a sensible course for any company regardless of whether illness or death does occur.

Insurance can also play a role here, with one option being to take out key person insurance, which is specifically designed to cater for the sudden loss of a key member of staff, through illness or death.

Source:Legal and General State of the Nation Report 2019

Key employee cover in brief

Key person cover is designed to help protect your business in the event of death or severe illness of one or more key employees. If your key employee dies or becomes seriously ill, the policy is designed to pay out a lump sum to make up for any loss in revenue or profits, or repay business loans at a critical time, helping to keep your business on track.

Actual cover available will depend on individual circumstances. As with all insurance policies, terms and conditions apply.

DRIVING IN EUROPE: **GREEN CARD UPDATE**

As we have referred to in previous communications, if the UK leaves the EU without a withdrawal agreement in place, and in the absence of a specific agreement to the contrary, drivers will need to ensure they carry a 'Green Card' while driving vehicles in the European Economic Area (EEA) and some other countries (Andorra and Switzerland).

Green Cards are an international certificate of insurance issued by insurers in the UK, guaranteeing that the motorist has the necessary minimum motor insurance cover for driving in the country being travelled to.

If you are driving in Europe on behalf of your business, do not ignore the new requirements. You may be required to show documents at the border when entering the EU, but this will be a decision for the border authorities to take.

You may also be subject to police checks while driving abroad and you will also need to be able to present the document at the scene if you are involved in an accident.

In order to facilitate the process of receiving a Green Card, one insurer has developed an easy to use 'Green Card Portal' to enable brokers and their clients to request Green Cards directly online, others may follow.

We would recommend if you have any concerns about the new requirements, either contact your insurer or usual Towergate advisor, to find out the process you will need to go through, should you wish to drive within the EU post 31 October, the government's intended date by which we leave the EU.

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