SURVIVING RISK AND UNCERTAINTY

Surviving risk and uncertainty

Many use the terms risk and uncertainty interchangeably. However, they are not the same. Risk refers to a condition in which there is a chance of loss or exposure to an identified danger that can be minimized through preventive measures. Conversely, uncertainty describes a situation where one is unsure of outcomes or there are a number of alternative outcomes such that a lack of information makes it impossible to make choices.

Risk and uncertainty in the business world

In the business world, risk is a critical element of reward. Investors or entrepreneurs are rewarded for the risk they take on their investments or endeavors. Yet, in business, risk also involves an element of uncertainty as the return expected on investments or the reward anticipated for the provision of certain services or concepts may not meet expectation. In this sense, in business, uncertainty is part and parcel of business risk.

While every business seeks to minimize loss and maximize gains, there is always an element of uncertainty that this may not be achieved. Hence, in business, uncertainty is itself also a risk.

How do businesses manage risk and uncertainty?

Businesses assume responsibility for the well-being of a range of people, from employees to customers. Businesses also assume responsibility for the creation and performance of their products or services. Since all these people, processes, products or services are subject to both risk and uncertainty, insurance was developed as a business tool to help manage, or at least minimize, the negative impact of risk and uncertainty on businesses.

Insurance: secret sauce of business success

Since risk and uncertainty together often prevent businesses from being conceived, built or operating efficiently, insurance is the secret sauce that allows business concepts, production processes or service models that would, by themselves, be overcome by risk or uncertainty to see the light of day.

What is insurance?

Insurance is defined as the equitable transfers of the risk of a potential loss from one entity to another, in exchange for a payment, called a premium.

Business insurance prevents uncertainty of mishap, like fire or burglary, from potentially wiping out the assets of a business while also protecting customers or passersby from any harm caused by a business, its people, operations or products or services.

As such, in addition to protecting the business itself, insurance also protects those that a business has the potential to harm. For example, if a delivery businesses' vehicle hits another person's car or a pedestrian, the business needs to be able to pay for the damage caused or compensate the victim in a way that doesn't compromise the ongoing operation and income of the business.

Insurance has proved so critical to the development, operation and survival of business that, today, legislators have made insurance compulsory for businesses that wouldn't on their own manage to operate and survive without insurance. Motor third party, employer's liability, workmen's compensation, group life assurance, healthcare professional indemnity, and aviation third party covers are all examples of compulsory insurances in Nigeria.

Importance of insurance in business

1- Makes investment possible: Without insurance there is no limit to uncertainty. Uncertainty reduces the appetite to invest in a business, its growth or new concepts. Even a simple insurance like life cover for the owner of a business can provide certainty that in the event of the business owner dying, any outstanding liabilities will be covered.

Insurance allows businesses to proceed in the confidence that they will be covered for both the risks they face as well as for the uncertainty of the damage that these risks may occasion, regardless of the quantum.

2- Reduces loss: Commerce and industry rely on property - fixed, conceptual and intellectual. Property is easily damaged or lost through, for example, fire, theft or accident. The activity of doing business can also damage third parties, their property, infringe on their rights, or violate their integrity, intellectual property or data.
While individual businesses may be able to set money aside to help manage these risks, since uncertainty is such an integral part of risk, businesses never know how much to set aside.

Equally, the damage caused may be so great that regardless of how much is set aside, businesses might not have sufficient money to cover unanticipated large losses. Instead, setting agreed and limited amounts aside for insurance policies transfers both the risk and the uncertainty of the quantum of loss to the insurer.

3- Improves efficiency: Freed from the uncertainty of loss, business owners are able to devote more time and ore of their capital to business performance.

4- Ensures sustainability: Losing personnel whose capital, expertise, experience, energy, ability, goodwill or dutifulness are key to the effective functioning of a business can threaten the viability of even the most successful businesses. Key person cover can be taken out to ensure that should a business lose the contribution of key personnel, an insurer will make good this loss, ensuring that the business can continue to perform as before despite losing the contributions of key individuals.

5- Improves creditworthiness: Insured persons or businesses present better loan prospects at better rates. Credit advancing institutions are more confident of repayment should a business owner have, for example, life insurance or a business have indemnity cover.
Policies can also be pledged as collateral for loans, up to the full value of the cover. Should the borrower default, the lender can access the polices pledged as collateral to cover debts owed.

6- Supports business continuity: Should a business partner die or key equipment be destroyed, business continuity covers provide the surviving partners the capital to cover the capital contribution of the deceased partner or replace the critical infrastructure so that the business can continue operating uninterrupted.

7- Secures employee welfare: Death, disability and retirement covers - usually involving contributions from both employer and employee - not only secure employee welfare but also drive higher performance and greater levels of employee commitment, reducing staff turnover, retaining skills and moderating training budgets.

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Basic business insurance

While insurers can craft insurance policies for almost any risk, basic covers that businesses should consider include:

1. Motor Insurance (Private and Commercial Use)
2. Occupier's liability insurance
3. Director and Officers liability
4. Contractor All risk insurance
5. Fidelity Guarantee insurance
6. Professional indemnity insurance
7. Employer's liability insurance
8. Marine cargo insurance
9. Marine hall insurance
10. Aviation insurance
11. Yacht insurance
12. Plant all risk insurance
13. Goods in transit insurance (GIT)
14. Machinery breakdown insurance
15. Burglary insurance
16. Fire and special peril insurance
17. Home owner insurance
18. Householder insurance
19. Personal accident insurance
20. Electronic equipment insurance
21. Computer all risk insurance
22. Travel insurance
23. Keyman insurance
24. Mortgage Protection insurance
25. Critical Illness insurance
26. Term Assurance

Fortunately, since advice is free, discovering which insurance policies can help you do business better is only a phone call away.

Speak to an insurance provider today to insure business success