



# INSURANCE & RISK FOR MSMEs

Understanding Insurance for MSMEs by IronRock



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July 15, 2021



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## **Business Insurance**

Business insurance is a category of insurance policies designed to transfer some defined business risk to an Insurance Company for a set premium.

## **Main Types of Business Insurance**

- Property Insurance
- Business Interruption/Loss of Profits
- Liability Insurance
- Accident Insurance
- Motor Vehicle Insurance

## **Importance of Insurance to MSMEs**

### ***Financial Shocks***

Small businesses and startups, in particular, usually don't have the financial capacity to withstand significant financial shocks. Insurance therefore plays an integral role in your business' financial plan, as it can be used as a risk transfer mechanism to help navigate unforeseen financial shocks.

### ***Risk Management***

All businesses face risks every day – from physical risks, to financial risks to operational risks. As a business owner, it is your job to assess, understand, and manage these risks. In many cases, some of these risks can be managed through risk transfer by purchasing an insurance policy.



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## How does Business Insurance help MSMEs?

- A business can obtain financial protection from losses that may occur during normal business operations;
- Allows a business to meet requirements to operate in certain industries or to obtain certain licenses;
- Allows a business to meet requirements to provide services to certain customers or to engage in certain contracts;
- It can provide protection from lawsuits;
- It can protect the business' image/reputation;
- It can provide business continuity following an unforeseen event;
- Increases the credibility of your business.

## Where should an MSME Start?

### *Start with Risk Management*

As an MSME, there is no need to think about Risk Management as a daunting task that requires the use of external experts to do some fancy assessment. Instead, think about it as the everyday activities that you do in order to protect your operations, your employees or your customers.

As you review your operations, and the way in which you provide your products/services, simply think about the potential unforeseen events that could cause disruption or financial loss to your business. These could range from physical damage to your property, or injury to an employee or customer.



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**Examples of unforeseen events that could cause disruptions or financial loss in your business:**

<i>Property Damage (loss of stock, contents or building)</i>	<i>Liability for injury to third parties or employees</i>	<i>Accidents &amp; Fraud</i>
<ul style="list-style-type: none"><li>• Fire</li><li>• Hurricane</li><li>• Flood</li><li>• Earthquake</li><li>• Burglary</li></ul>	<ul style="list-style-type: none"><li>• Slip and fall of one of your customers</li><li>• Injury to a warehouse worker from lifting something too heavy</li></ul>	<ul style="list-style-type: none"><li>• Cash in the till being stolen</li><li>• An employee embezzling money from the company</li><li>• Stock being damaged in transport to your warehouse</li></ul>

Once you have completed an assessment of these exposures, try to categorize them into losses you can quantify vs. those you can't quantify.

*E.g., You can quantify how much cash you have in the till and so you know your exposure, but you can't quantify what it might cost if someone slips and falls, and sues you for injuries.*

Then, you can rank the exposures accordingly, to determine how you would like to address them, whether through insurance or otherwise.



It is always wise to prioritize the losses that are difficult or impossible to quantify, as those are the ones that can really hurt the business.



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## Using Insurance as a Risk Management Tool

Once you have completed your assessment of the exposures faced in your business, the final step is to determine how you are going to treat with them. You can use one of five (5) **S.M.A.R.T.** mechanisms to do so:

1. **Share** – get a partner to share in the risk with you so the financial shock is not as great to you or your business individually.
2. **Mitigate** – use loss prevention and reduction techniques to reduce the impact of the potential loss (e.g., fire extinguishers, or keeping less money in the till at a time).
3. **Avoid** – cease/terminate any business activity that is causing unnecessary risks.
4. **Retain** – accept that the risk exists and plan to accommodate the financial impact it may have.
5. **Transfer** – purchase an insurance policy to cover the financial loss that the risk poses.



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## Using Insurance as a Risk Management Tool Continued

Having identified Insurance as the mechanism for managing your risks, here are some of the common business insurance policies available and what they protect.

Policy Type	What it Covers
Fire & Perils or Property All Risks	Physical damage to property owned by the business, caused by Acts of God and other minor perils.
Business Interruption	Loss of Gross Profits as a result of the business being interrupted from one of the physical damage perils above.
Public Liability	The business' legal liability for injuries or property damage caused to third parties as a result of business operations/activities
Employer's Liability	The business' legal liability for injuries caused to employees as a result of business operations /activities.
Loss of Money	Loss of cash by burglary or physical damage from Fire or Flood or an Act of God
Fidelity Guarantee	Employee fraud or embezzlement
Goods in Transit	Loss of company goods whilst in transit (from physical damage or theft)
Marine Cargo	Loss of company goods while being imported or exported by sea/air



# RESOURCES



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