PROTECTING YOUR REVENUE

Want to protect your golden goose? Then **Chris Mariani** suggests doing some research into business expenses insurance.

A doctor who recently attended a Private Practice course on risk management commented: "I've got business expenses insurance, so I think I'm fully covered, aren't I?" As explained below, the answer to the question is, "You're partly covered!"

The terminology 'business expenses insurance' can mean different things to different people. Commonly, 'business expenses insurance' is a policy attached to an income-protection contract. This insurance covers your fixed business expenses should a claim be triggered by an accident or illness that prevents you from working.

Another type of 'business expenses insurance' is commonly found within a property or business-package policy. Under this policy type, the insurer covers the business's loss of revenue when it is unable to trade due to an 'insured peril', such as a fire or storm damage.

There are some risks that you can't transfer to insurance, or that would be cost probative, such as lost revenue suffered due to cancellation or suspension of your medical registration. Hence, good risk management should always be practised, and insurance viewed as a final layer of protection.

Insuring your revenue in a property or business package policy

Most medical practices – whether a GP clinic, specialist rooms or day surgery – are reliant on their practice premises in order to function. In the case of a single-site GP clinic or a day surgery, the business would likely grind to a complete halt in the event of a major fire or storm damage, and the practice would likely face the choice of:

- Closing down the practice and waiting for repair/rebuild.
- Finding new (or temporary) premises asap, with the aim being to get back trading asap.

'Business interruption' (BI) Insurance is designed to put the business back in the same financial position it would have enjoyed but for the loss of the aforementioned fire or storm. There are numerous 'moving parts' to consider when reviewing the need for BI cover, and due to the complexity of both individual circumstances and the policy cover, the following is only a brief summary of some of the things to consider:

FACTORS TO CONSIDER

What is my strategy in the event of a disaster?

You should have a clear idea of what you would intend to do in the event of, say, the premises burning down, and then match the BI cover to suit your strategy, referred to in risk management as a Business Continuity Plan (BCP). The practice that intends to find new rental premises quickly will require a different BI structure to the practice that intends to close down for a lengthy rebuild.

What lost revenue should I cover?

To understand this, you need to look at both your BCP strategy and what expenses you will continue to incur versus those that are truly variable. For example, a GP clinic that engages contracted doctors will generally be under no obligation to pay the contracted doctors (as the contractor is only paid a percentage of billings they generate), while the business is closed. However the business would risk those doctors leaving to find an alternative practice to engage with, meaning that on re-opening, the business has lost its key people.

Most clients I advise will opt to insure 100% of their gross revenue (including wages and contractor payments), as it provides flexibility should a disaster strike.

What 'Additional Increased Costs of Working' should I cover?

BI not only covers lost revenue but can also be extended to cover the additional costs you incur that assist you getting back to your pre-loss situation. This could include costs such as overtime, IT consultants, additional short-term rent and advertising to advise current patients of your new location. Many policies only provide a small amount of automatic cover (some as low as $10,000), and our experience has revealed that even for small practices this should be at least $100,000.

How long should I insure for?

This is generally a function of:

- How long it will take to repair/rebuild/reoccupy the premises, or how long it will find to commence trading at new premises (with sufficient time to allow for things such as council approval, demolition, etcetera).
- How long it will take for the business to return to its pre-loss position (i.e. when it is back to 100% revenue and no further additional costs are being incurred).
- Are you tenant, landlord or both?

Again, your BCP strategy dictates what you would do in the event of a disaster and will therefore also dictate the period you need to insure for. This is referred to as the 'indemnity period' in the BI policy.

What events can 'trigger' a claim under the BI section?

The most common types of events that trigger the BI cover are claims covered under the 'fire and perils' sections of the policy – i.e. fire, storm, earthquake and theft, especially where malicious damage occurs. The better policies also provide cover in the event of:

- Closure by public authority (e.g. Legionnaires disease, murder or suicide).
- Interruption of public utilities (e.g. electricity, gas, etcetera), which means you are unable to conduct your business.
- Customers or supplier's premises (where loss at their premises impacts your business).

Again, your individual circumstances need to be considered – for example, consulting rooms within a hospital will have different exposures and needs to a rural GP clinic.

I'm not reliant on a particular premises, so do I really need cover?

Possibly not. The only client I have seen in recent times who truly had no or little exposure to 'their rooms' was a specialist who essentially rented room space on a casual basis at a number of different locations, and would spend a day or two at each location per week. The specialist's BCP strategy would simply be to move any patients to any

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one of the other locations he rented, so he was confident he did not need BI cover. He may have still benefited from holding 'Additional Increased Cost of Working' cover, as, for example, it could be used to pay the costs of hiring transport for patients that had to travel further to see him.

What other types of insurance can cover lost revenue from different risks?

There is also cover available for other types of lost revenue caused by different triggers, including:

- **Cyber risks:** A hacker manages to break into your server and delete, tamper with or demand a ransom. This may result in lost revenue (as it can be difficult to trade without patient records) and additional IT costs.
- **Electronic or machinery breakdown:** The air-conditioning breaks down in the middle of summer and patients avoid the premises due to the heatwave, resulting in a loss of revenue.

WHERE TO START

Firstly, don't try to do this yourself! You wouldn't do your own taxes and would instead use an experienced accountant. Insurance is the same, so engage an insurance broker who has experience in the medical sector and have them complete a review of your particular circumstances.

The broker should be able to recommend a suitable policy structure and will be able to source the most appropriate cover for you. The broker works for you, so their duty is to you, not to the insurers, who will simply sell you the product they have on the shelf.

If you have any questions or need advice on your insurances, please contact Chris Mariani on 02 9905 7005, 0419 017 011 or **chris@mgrs.com.au** for an obligation-free discussion and review.

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