

FOR CEO'S & BUSINESS LEADERS IN INVESTMENT - RENTING OR LEASING OWN COMMERCIAL AND/OR INDUSTRIAL PROPERTY





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1. ABOUT LMI GROUP

LMI Group is an independent company specialising in risk assessment for the general insurance and wider business communities. The LMI RiskCoach research team has over 1,000 years combined experience in assisting businesses following losses. Using this enormous bank of knowledge the team has developed RiskCoach to assist businesses and their insurance advisers understand the specific risks in up to 14 classes of general insurance for their industry / occupation before a claim occurs. LMI believe that insurance should be considered as protection and not a cost. The cost of insurance, called a premium, is the cost of transferring the risk from the shareholders and their families to an insurer.

Should you have any questions about this report please discuss them with your insurance adviser or email expert@LMIGroup.com enclosing a copy of your report. If you need claims assistance, please email claims@LMIGroup.com for expert assistance.

2. PURPOSE OF THIS REPORT

The Insurance Risk Report has been designed to assist you in identifying significant exposures to a business operating in your industry. Contained within this report is a Hazard Index graph which considers both the likelihood and severity of losses over 14 insurable classes of insurance for your industry and rates them accordingly. This graph is complemented with a number of explanations giving rise to the factors considered when providing the rating. If it is not already included in this report, you may request your Insurance Professional to provide you with a list of significant exposures relevant to your industry. These exposures are useful to highlight the most likely and severe risks to your industry and potentially your business and to get you thinking about other areas that may be at risk.

Please note: These ratings have been developed using historical claims and loss data for a general business operating in this field. It is recommended that additional factors specific to your business be taken into account when assessing this information such as location and crime rates.

3. HAZARD ASSESSMENT

Identifying hazards in the workplace involves finding things and situations that could potentially cause harm to the organisation. The following chart is a graphical representation of the likelihood and severity of a loss occurring within any of the classes of insurance listed in the chart.



Fig 1: Hazard Index

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PROPERTY DAMAGE

61%

CLASSES OF INSURANCE

RISK SUMMARY

Property exposures include owned/rented/leased properties and also, possibly, office/administration accommodation, depending on the nature of the operation. For owned commercial properties, at any one time these may either be vacant or occupied by tenants. Risks in occupied properties will vary with the occupation(s) of the tenants, the stock and materials stored on the premises, the types of processes or services performed and machinery and equipment used. Since property owners/operators can own buildings used for agricultural, manufacturing, retail, accommodation, wholesale and office functions (amongst others), the range of potential property risks is extensive. In assessing the exposure, the underwriter/adviser will need to establish the types of building in the property portfolio and the occupants for each building. The risk will be most difficult to assess in multiple tenant buildings, shopping centres and the like, and in situations where the tenants change more frequently. Often the approach taken in rating or assessing risk is to take the most hazardous occupation, but this is only of value in rating; to understand the risk and consider appropriate risk management the underwriter/adviser will need to build a picture of all occupancies. Appropriately worded tenancy agreements, as well as the use of professional property management firms, help to control this exposure, but the company tenant base, maintenance and management of buildings and checks conducted on buildings and tenants are the key issues. At the insured's office, property risks are identical to those in many other white collar occupations/office risks. Electrical equipment, personal portable heaters or desktop fans, faulty wiring and kitchen appliances are potential ignition sources. The presence of artwork and customer documents will increase the fire load/ hazard. The cost of reinstating records and data is a key element to consider.

BUSINESS INTERRUPTION

65%

CLASSES OF INSURANCE

RISK SUMMARY

The major risk for non-residential property operators are loss of rental income due to a total or partial loss in the rented property/ies. The amount of loss (rental income), in general, is proportionate to the building loss and number of tenants. After a major loss insured will lose the rental income until the property is reinstated and suitable replacement tenants are found. The extent of exposure will depend on the owned property portfolio size and nature. Losses are more likely to affect the business significantly where owned properties are adjacent or concentrated in a single area (e.g. a shopping centre, office building or block of commercial units), or where the size of the property portfolio is small (since the loss of one unit will comprise a more substantial amount of total income).

CRIME

27%

CLASSES OF INSURANCE

Theft, Money, Surety / Fidelity

RISK SUMMARY

Most transactions will be conducted by cheques or telegraphic transfers, thus cash exposure is relatively low in most cases. The amount of petty cash should be considered; this will be higher in general for smaller operators where the insured also manages and maintains the property rather than outsourcing. Theft of office and computer equipment is a threat. Adequate internal and external control measures are important to control the possible fidelity exposure. Theft by tenants is not likely to be a major issue for most commercial leases, where the property is generally let unfurnished.

MARINE (INCLUDING INLAND TRANSIT)

25%

CLASSES OF INSURANCE

Marine Cargo, Goods in Transit, Marine Consequential Loss, Commercial Hull, Carriers Insurance, Marine Liabilities

RISK SUMMARY

Non-residential property operators are unlikely to have significant regular marine exposures. However, as with any office or profession, insured may have occasional/incidental marine cargo risks such as purchases of new furniture, equipment or computers; and office relocations. If the insured manages or maintains the property themselves, there may be cleaning materials and tools

continuously in transit between properties. A general property, rather than tools of trade cover, is recommended due to the limited nature of the coverage for the latter.

EQUIPMENT BREAKDOWN

45%

CLASSES OF INSURANCE

Machinery Breakdown, Engineering, Mobile Machinery, Computers, Electronic Equipment, Machinery Business Interruption

RISK SUMMARY

The main risk for a non-residential property operator is in the risk of breakdown of machinery and equipment in rented properties. It is important that machinery should be quickly repaired to avoid the potential for disputes with tenants and loss of rent. Office risk - although most business/office machines and computers can be quickly (and relatively inexpensively) replaced, the significant exposure is loss of data/records. Good backup systems are essential.

MOTOR

25%

CLASSES OF INSURANCE

Commercial Motor, Earthmoving Equipment, Motor Fleet, Heavy Motor

RISK SUMMARY

Normally only passenger vehicles need to be considered. The inclusion of higher value foreign manufactured vehicles may increase repair costs, whilst caution is required with valuations as some vehicles could have non-standard modifications and accessories. Possible use of employee vehicles could create a vicarious liability exposure.

PUBLIC LIABILITY

42%

CLASSES OF INSURANCE

Public Liability, Advertising Liability, Environmental Liability, Liquor Liability

RISK SUMMARY

There will be an exposure in respect of both rented property (landlord's liability) and office/occupier's liability. The insured has a responsibility for the general condition and maintenance of rented property including common areas in office buildings such as lobbies, lifts, stairwells etc. The tenancy agreement will outline the extent of exposure and liability of tenant and

landlord and the standard agreement should be carefully reviewed to determine liability exposure. If it is necessary to evict a tenant, this must be carefully and professionally handled. Public liability risks at the office are similar to most office environments and major sources of risk are slips, trips and falls and inadequate signage and fire protection. The numbers of visitors are likely to be low. There is also the risk of third party property damage to adjacent properties from the fire risk.

PRODUCT LIABILITY

10%

CLASSES OF INSURANCE

Product Liability, Product Recall, Product Guarantee, Extortion, Kidnap and Ransom

RISK SUMMARY

Not normally required.

PROFESSIONAL INDEMNITY

32%

CLASSES OF INSURANCE

RISK SUMMARY

Refer Errors and Omissions

MANAGEMENT LIABILITY

CLASSES OF INSURANCE

57%

Directors and Officers Liability, Employment Practices Liability, Statutory Liability, Crime, Cyber / Internet Liability, Taxation, Trustees

RISK SUMMARY

Management Liability Insurance is typically designed to meet the specific needs of small to medium-sized companies, as these businesses often have unique risk profiles and face different challenges compared to larger organisations. However, some larger organisations may also benefit from Management Liability Insurance coverage, depending on their risk exposures and needs. The following section features potential risk exposures for the industry, underwriter/adviser to consider.

Moderate exposure to directors and officers, statutory liability, employment practices, cyber, crime and similar corporate/ operational risks, which increase with the size, complexity of the operation and number of employees. Examples of possible claims / exposures under each insurance class may include:

- Directors and officers - false, misleading and deceptive conduct, not acting in the best interest of shareholders, breach of trust, misappropriation of company funds / trade secrets, errors and omissions in financial reports, mixing personal and business assets, unfair treatment of shareholders, unfair trading activities, unfair competition, insolvent trading, breach of contract, mismanagement of cyber risk exposure, failing to provide adequate training and supervision/ a safe environment for work, environmental breach/prosecution etc.
Increased regulations have heightened the operating risk for businesses of all sizes. Furthermore, with a fast-changing regulatory environment, directors are often unaware of their full legal responsibilities. Directors and officers have duties and obligations, for which they are personally responsible, some of which may carry unlimited personal liability.
- Statutory Liability - breaches of legislation and non-compliance - e.g., occupational health and safety laws, building acts/regulations, commercial tenancies regulations, environmental regulations, financial market misconduct, etc. Non-existence of adequate compliance and control measures can be an issue (if applicable). Businesses are exposed to hundreds of pieces of legislation and the cost to a business of a simple regulatory breach /investigation can be considerable.
- Crime - employee or third-party crime, including theft of money and property, fraud by internal collusion, theft by contractors/consultants, fraudulent funds transfer, counterfeit fraud, forgery, credit card fraud, social engineering fraud etc. Higher exposure for businesses with inadequate controls in place.
- Employment Practice Liability – allegations of unfair/wrongful dismissal, workplace harassment, bullying, sexual harassment, discrimination (e.g., age, racial, sexual, religious,

disability, etc.), failure to maintain a safe workplace / working environment, breach of contract / employment contracts etc. Other issues may include - possible presence of casual or temporary personnel, long working hours, inadequate level of supervision etc. Employees are much more aware of their rights at work and are prepared to pursue claims against their employers.

Hidden costs of employment practice liability related problems include – negative publicity, damage to reputation and goodwill, loss of productivity, stress to both the employer and employees, etc.

- Cyber/Internet Liability - breach of privacy/security, inadvertent transmission of a computer virus, deleted or stolen data following hacking, damage to network, system or website, copyright infringement, plagiarism, publishing of a defamatory statement, cyber extortion / ransom demand. Inadequate privacy/security compliance through procedures and systems, poor management of large volumes of personal/corporate data are other common issues. These incidents can result in financial losses, reputational damage, and legal and regulatory consequences for the business.
- Taxation - non-compliance with taxation legislation / not meeting certain tax obligations, failure to keep records, poor accounting and monetary management, mistakes while filing tax returns of the business, asset misappropriation (physical and financial) etc. potential costs for such breach include e.g., taxation and government audit investigation costs, penalties for breaches of taxation legislation.
- Trustees - inappropriate investment strategy, failure to monitor fund performance, failure to prevent fraud, failure to insure trust property, conflict of interest, incorrect advice, incorrect payments etc. Other common issues may include - failure by trustees to discharge their obligations to the required standard, not acting in accordance with the trust deed and common law and legislation, lack of or no established governance & risk management framework etc.

The range of lawsuits being pursued against business owners/operators by employees, shareholders, regulators, creditors or others are on the rise and the cost to a business for a simple regulatory investigation can be substantial. Even the most trivial of cases can cost a great deal of money and time to defend.

It is important to recognise that insurance coverage and limits offered in the market can vary between insurers. Therefore, businesses need to carefully review and compare policy coverage to decide suitability for their business operation.

EMPLOYER LIABILITY / WORKER'S COMPENSATION

39%

CLASSES OF INSURANCE

RISK SUMMARY

Other than the largest of commercial property operators employee numbers are likely to be relatively low since in many cases, property management, repair and maintenance tasks are outsourced and there will only be an office risk. Large operators may have dedicated employees to perform office work and repair and maintenance work at various leased/rented properties.

CYBER RISKS

51%

CLASSES OF INSURANCE

RISK SUMMARY

- Businesses are becoming more and more dependent on digital technology/integrated IT systems;
- Security/privacy breach - holding large volumes of sensitive personal and corporate data (rental applications, credit reports, credit/debit card details etc.);
- Security/privacy breach - loss of portable equipment (laptop, tablets etc.) containing unencrypted personal information;
- External hacking attacks, internal negligence, deliberate acts, system glitches etc.;
- Electronic data/software loss and replacement cost following a cyber-attack;
- Electronic media liability - including invasion of privacy, infringement of copyright, title, slogan, trademark or service names including domain names, false advertising etc.;
- Privacy breach – accidental distribution of customers personal information in a mass e-mail; posts sensitive data on a website;
- Business interruption/increased in cost of working following a cyber-attack;
- Businesses held to ransom before systems are released;
- Cyber-threat from interconnected supply chain business partners/outsourced service providers;
- Internal control and other issues – e.g. non-segregation of sensitive data, inadequate user access control/password protection, outdated POS software applications, absence of up to date antivirus software/firewalls, unencrypted data/information/lack of end-to-end encryption;
- Possible presence of older devices/computer systems with outdated operating systems and unsupported software;

- Inadequate training for employees on data security/privacy/cyber risk. No or inadequate background checks conducted on employees/various service providers/suppliers etc.;
- Compliance and control issues - Businesses without or inadequate policies, procedures and protocols on cyber security and related matters (if applicable);
- Bring your own devices (BYOD), download and install personal, or unauthorised software, use of USB or other media devices;
- Extra expenses following a cyber incident including forensic investigation costs, crisis management expenses, notification and monitoring expenses, remediation expenses and other extra expenses association with a loss;
- Brand and reputational damage following a cyber-attack/data breach;
- Security lapses in company web-sites – cyber threat to own hardware and software. Cyber threat to visitors of the website;
- Lack of security measures including a combination of technology (e.g. IT security) and physical security at the premises;

CORPORATE TRAVEL

18%

CLASSES OF INSURANCE

RISK SUMMARY

Exposure will vary considerably depending on the various factors including - number of persons travelling in any given year, the frequency of travel, staff designations, the numbers travelling together (accumulation), destinations (local/overseas), reasons for travel / nature of work undertaken, issues/risks/hazards, that can affect an employee's health, safety and security whilst travelling, transport mode, staff's fitness to travel /work abroad, previous travel experience, specific health risks at the destination, availability of reliable emergency services etc. Therefore, given hazard rating to be further assessed, considering the above factors in mind. Other main risks for this industry category may include:

- Travel staff are unlikely to be involved in worksite activity and will usually be visiting offices or attending conferences, training or trade events etc.
- Increase risk due to political, social and economic volatility/instability in many parts of the world
- Inadequate pre-trip risk assessment, education and preparation
- Security related issues/concerns in some locations/countries – terrorist attacks, civil unrest/war, kidnap and ransom, harassment etc.
- Traveller falling ill while abroad, delayed flights, losing passport, accommodation mix-ups, local language barriers, as well as exposure to disease, natural disasters and technology failings
- Travelling with company owned equipment; risk to data carrying equipment/loss of baggage /passport

- Poor or inadequate travel risk management strategy for travelling staff
- Legal Risks/Risks to reputation/Illegal activity by travellers - Breaching local laws and customs, misbehaviour by travelling employees/ unethical conduct by employees, non-compliance with regulation.
- Transport and related issues / concerns – flight/tour cancellation, flight delay, miss of a connecting flight, traffic accidents, poor safety standards of transport/public transport / self-driving immediately after long-haul flights
- Business travellers usually stand out from the local population as different, making them a target for criminals and terrorists
- Also refer to Employer Liability/Worker's compensation

4. WANT MORE CERTAINTY AROUND YOUR BUSINESS RISK...REACH OUT

4Sight Risk Partners was built on a singular truth – that no two clients' business are the same, yet all should feel confident in managing their business with knowledge and certainty around risk.

Our clients secure a strategic advantage from their qualified risk profiles and quantified risk appetite. They leverage our 75 years of global risk and insurance expertise, navigating uncertainties and opportunities with confidence. Operating within our 4Sight Risk Partners 'IQ-ARTA' framework, our clients implement effective tailored risk management solutions.

4Sight Risk Partners collective strength, choice, and value, along with Insurance Advisernet's network, constitutes our greatest asset. 4Sight Risk Partners give our clients confidence and greater clarity around risk and insurance, despite its complexity. We provide trusted advice and advocate for our clients as their valued business partner.

To find out more go to www.4sightrisk.com.au or reach out.



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