

# FOR CEO'S & BUSINESS LEADERS IN FINANCIAL ASSET BROKING SERVICE - ON A COMMISSION OR TRANSACTION FEE BASIS



## INSURANCE RISK REPORT.



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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](mailto:expert@LMIGroup.com) enclosing a copy of your report. If you need claims assistance, please email [claims@LMIGroup.com](mailto:claims@LMIGroup.com) for expert assistance.

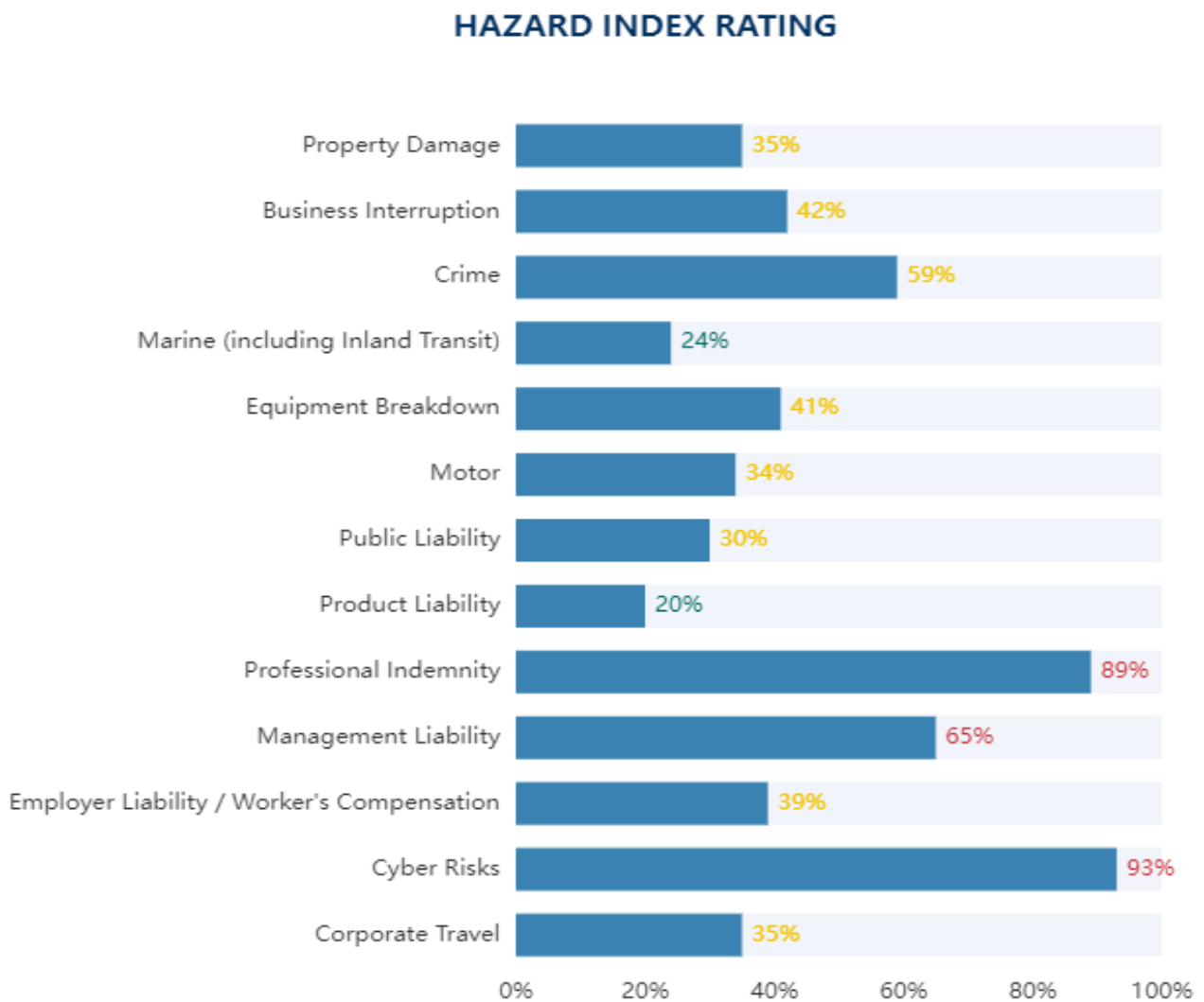
## 2. PURPOSE OF THIS REPORT

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

35%

CLASSES OF INSURANCE

### RISK SUMMARY

Risks associated with these firms from a property damage perspective 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, customer documents and existence of a library will also increase the fire load/ hazard. The cost of reinstating client records and data is the key element to consider in this regard.

## BUSINESS INTERRUPTION

42%

CLASSES OF INSURANCE

### RISK SUMMARY

The major risk is the loss of data or documentation which can be managed with good backup and storage procedures. Most firms lease rented office space and due to the non-specialised nature of the requirements, alternative premises are likely to be easily located. Likewise, office equipment, machinery and computer systems are unlikely to be specialised in nature and therefore replacements will not be difficult or time consuming to obtain in most cases. Communications and computer equipment and maintenance of communications platforms is a key business risk however and there could be significant loss of revenue in the event of a lengthy period of downtime.

## CRIME

59%

CLASSES OF INSURANCE

Theft, Money, Surety / Fidelity

## RISK SUMMARY

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Theft of office equipment (laptop computers, mobile phones in particular) or petty cash represents the main potential source of loss, other than employee fidelity issues, which could be a substantial risk for this occupation, depending on the level of control.

## MARINE (INCLUDING INLAND TRANSIT)

### CLASSES OF INSURANCE

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24%

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

## RISK SUMMARY

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Marine exposures are usually limited to incoming shipments of office consumables and occasionally large shipments of new computer equipment/furniture and fittings, where the insured is responsible under sale terms and are not likely to be frequent or substantial. Occasional office relocations will usually be handled under a single transit policy.

## EQUIPMENT BREAKDOWN

### CLASSES OF INSURANCE

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41%

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

## RISK SUMMARY

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Moderate risk typical of office environments. The main risk for a financial asset broking firm is in the risk of breakdown of office machinery and computer equipment. The non-specialised nature of the equipment will mean replacement or repair is straightforward, but a file server, for example, may be expensive. More importantly, the loss of data or records is a significant risk.

## MOTOR

34%

### CLASSES OF INSURANCE

Commercial Motor, Earthmoving Equipment, Motor Fleet, Heavy Motor

### RISK SUMMARY

Exposure under this classification will not be significant. Types of vehicles owned or operated by the business would be normally be limited to passenger vehicles for senior/management level staff or sales staff. Staff will travel existing and potential customers' in different locations to perform various tasks including customer service, canvassing business, provide advice etc. Generally frequency of travel will be high but distance travelled would be low, but this general rule could be varied by the customer base. Use of employee vehicles could create a vicarious liability exposure. Pool vehicles may present additional hazards in the absence of good control mechanisms.

## PUBLIC LIABILITY

30%

### CLASSES OF INSURANCE

Public Liability, Advertising Liability, Environmental Liability, Liquor Liability

### RISK SUMMARY

The public liability risk is generally low and usually limited to general office/occupiers liability. Some staff will travel to existing and potential customer's premises for marketing, sales and service functions. The frequency with which functions or presentations are held involving large numbers of guests should be considered. Since the premises may be either owned or leased, the responsibility for common areas such as lobbies, lifts, stairwells etc, as well as any responsibility under tenancy agreements as owner or occupier must be clearly established in determining liability exposure.

## PRODUCT LIABILITY

20%

### CLASSES OF INSURANCE

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

### RISK SUMMARY

Since the financial asset broking firm will not manufacture, store or distribute product, exposure is usually limited to the provision of corporate giftware or the responsibility for food and drink provided at functions.

## PROFESSIONAL INDEMNITY

89%

### CLASSES OF INSURANCE

### RISK SUMMARY

The insured's professional liability exposure varies depending on the nature of the service and type of clientele that they service but in general exposure will be significant in that the insured's staff will be handling significant values of financial assets and the cost to the client or errors or mistakes could be significant. Some of the more common sources of claims include:

1. breach of professional duty of care (e.g. failure to correctly establish client needs, failure to provide proper investment advice, errors in trading, failure to take into account market trends or information available before investing or selling assets etc);
2. wrongful advice in relation to investment decisions or proposed deals ;
3. negligent acts, errors or omissions (e.g. in data processing, paperwork or in documenting client decisions);
4. unintentional infringement of intellectual property rights;
5. loss of documents or data entrusted to the insured (particularly that with financial value); (e) unintentional breach of confidence, privacy legislation or misuse of information e.g. insider trading;
6. unintentional breaches of the specific regulation/Law/Act;
7. breaches of Data Protection/Privacy legislation.



## MANAGEMENT LIABILITY

### CLASSES OF INSURANCE

65%

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, crime, cyber, employment practices 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 - e.g., 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, failing to provide adequate training and supervision/ a safe environment for work, failure to adequately address cybersecurity risk, 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, financial services regulations, anti-money laundering (AML) laws, consumer protection laws, securities laws, data privacy and cybersecurity laws, 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, employee fraud by collusion with suppliers, 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.

- Cyber/Internet Liability - breach of privacy/security, inadvertent transmission of a computer virus, deleted or stolen data/records following hacking, damage to network, system or website, copyright infringement, plagiarism, 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.
- 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, trainee or temporary workers, 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 employee, etc.,
- 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, customers 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

Moderate exposure to repetitive strain injuries, kitchen incidents, slips and falls and other office risks. Employees in this industry may work long hours and suffer a higher than average exposure to stress related sicknesses.

## CYBER RISKS

93%

### CLASSES OF INSURANCE

#### RISK SUMMARY

- Businesses are becoming more and more dependent on digital technology/integrated IT systems;
- Security/privacy breach - presence of large volumes of sensitive personal and cooperate data/presence of digital files and databases;
- 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.;
- Business interruption/increased in cost of working following a cyber-attack;
- Businesses held to ransom before systems are released;
- Privacy breach – accidental distribution of customers personal information in a mass e-mail;
- Cyber-threat from interconnected supply chain business partners/outsourced services 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. Possible presence of higher numbers of temporary staff in the industry;

- Compliance and control issues - no 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

35%

### 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
- Developing countries/remote locations - non-availability of appropriate medical services, transport challenges with access during a medical emergency / evacuation difficulty / reduced access to adequate infrastructure for medical attention.
- 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
- High cost/expenses associated with – worldwide assist, search and rescue, overseas medical expenses.
- 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](http://www.4sightrisk.com.au) or reach out.



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