

# FOR CEO'S & BUSINESS LEADERS IN MANAGEMENT CONSULTING SERVICE



## 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 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 a key element to consider in this regard. In some cases, the consulting firm may have made other property investments and prudent underwriters will wish to investigate not only the firm's own business addresses but also any other premises to be included under the insurance, including details of the current tenant.

## BUSINESS INTERRUPTION

33%

### CLASSES OF INSURANCE

#### RISK SUMMARY

BI exposure is low to moderate. The major risk for management consulting and related service providing firms is the loss of client data or documentation which can be managed with good backup and storage procedures. Most management consultancy and related consultancy providing firms lease rented office space and due to the non-specialised nature of the office space 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. Competition in this industry is high and in addition to direct competition from similar management consultancy service providers, the insured faces competition from accounting firms, Large IT companies, finance and human resource firms who may offer management advice and related consultancy services as part of their overall service to their customers. This may extend the period required to recover following a loss as customers may change providers. The management consultancy industry is a labour intensive industry and well educated, highly qualified and experienced staff are required. However, relocation within a relatively short distance from the original site is unlikely to affect staff availability.

Large management advice and related service providers may have a multiple branch network and any loss or damage to one branch may be able to be mitigated by service from another branch as a temporary solution. Likewise, the nature of the work, provided that the insured has good backup of data, means that work from home is another possibility to mitigate a potential loss of revenue following damage to the premises.

## CRIME

38%

### CLASSES OF INSURANCE

Theft, Money, Surety / Fidelity

### RISK SUMMARY

Theft of office equipment (i.e. laptop computers, mobile phones etc) or petty cash and employee fidelity issues represent the main potential source of losses. Effective risk management involves minimising cash on premises, adequate level of internal control, physical security and care with laptops.

## MARINE (INCLUDING INLAND TRANSIT)

25%

### CLASSES OF INSURANCE

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

### RISK SUMMARY

Management consulting firms are unlikely to have significant regular marine exposures. However, as with any office or profession, they may have occasional/incidental marine cargo risks which should be investigated. If the firm owns a company pleasurecraft for entertaining customers etc then marine hull cover (including navigational liability) may be required.

## EQUIPMENT BREAKDOWN

40%

### CLASSES OF INSURANCE

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

### RISK SUMMARY

Moderate risk typical of office environments. The main risk for a consulting firm is in the risk of loss or damage /breakdown of computer and office machinery. 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

28%

### CLASSES OF INSURANCE

Commercial Motor, Earthmoving Equipment, Motor Fleet, Heavy Motor

### RISK SUMMARY

The exposure for this insurance product line will not be significant. Normally only passenger vehicles need to be considered. However, as a professional advisor service, staff wages and therefore the values of vehicles may be higher than a normal business fleet. Staff will travel to existing and potential customers' in different locations to perform various consultation work. Generally frequency of travel will be high but distance travelled would be low, but this can be varied by the customer base. Use of employee vehicles could create a vicarious liability exposure. Possible use of pool vehicles may present additional hazards and require better control mechanisms.

## PUBLIC LIABILITY

32%

### CLASSES OF INSURANCE

Public Liability, Advertising Liability, Environmental Liability, Liquor Liability

### RISK SUMMARY

Consulting firms' public liability is generally limited to general office/occupiers liability. Clients may attend presentations at the offices but most presentations will be held on the client's premises. 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

22%

### CLASSES OF INSURANCE

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

### RISK SUMMARY

Since the management advice and related consulting firm will not manufacture, store or distribute product, exposure is usually limited to the provision of corporate giftware, software packages (efficacy risk) or the responsibility for food and drink provided at functions.

## PROFESSIONAL INDEMNITY

65%

### CLASSES OF INSURANCE

### RISK SUMMARY

Because management consulting is so broadly defined, it is not possible to easily define the services and specialties the firm offers. The insured's professional liability exposure varies depending on the nature of the service and type of clientele that they service. In general exposure can be considered as significant. Some of the more common sources of claims include:



- a. Breach of professional duty of care (e.g. failure to do a detailed assessment/in depth analysis of the company prior to given advice/consultation);
- b. wrongful advice;
- c. negligent acts, errors or omissions ;
- d. unintentional infringement of intellectual property rights;
- e. loss of documents or data entrusted to the insured; (e) unintentional breach of confidence, privacy legislation or misuse of information;
- f. unintentional breaches of the Trade Practices Act or specific insurance legislation and/or
- g. breaches of Data Protection/Privacy legislation.

Risk management and quality assurance processes used to assist in prevention of potential breaches of professional duty and control of actual breaches of professional duty are critical. Another key element of control is in the area of client engagement and scoping of the work to be undertaken. A clear understanding of the task and services provided may prevent future disputes.

## MANAGEMENT LIABILITY

### CLASSES OF INSURANCE

51%

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

### RISK SUMMARY

Moderate exposure to directors and officers, statutory liability, cyber, employment practices, tax 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, breach of intellectual property rights , 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, legislation related to privacy, confidentiality, data protection, record-keeping, 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.

- 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, plagiarism, copyright infringement, publishing of a defamatory statement, cyber extortion / ransom demand. Inadequate privacy 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), failure to maintain a safe workplace / working environment, breach of contract / employment contracts etc. Other issues may include - possible presence of part-time, casual or trainee 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 employee, etc.
- 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.
- 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 claims/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. Claims costs and associated legal/other fees (investigation cost, defence cost, civil fines & pecuniary penalties, public relations expenses etc) that can arise when an incident occurs can be financially crippling for the business.

It should be emphasised that Management Liability insurance is designed to meet specific needs of small to medium sized companies and not for very large organisations. Further insurance coverage and limits offered under each policy will vary from insurer to insurer.

## EMPLOYER LIABILITY / WORKER'S COMPENSATION

33%

### CLASSES OF INSURANCE

#### RISK SUMMARY

The risk is low to moderate for this occupation type. Management consultants usually divide their time between their offices and the client's site. In either situation, much of a consultant's time is spent indoors in clean, well-lit offices. As with any office risk, there is an increasing trend for employees to lodge claims for eye fatigue and back injuries or 'sick building' syndrome but the main exposure for this industry is stress related illness. Staff working with computers may be vulnerable to repetitive motion injuries such as carpal tunnel syndrome. Most employees working with video display terminals are vulnerable to eye fatigue. Therefore regular breaks are recommended and adequate lighting is required where employees do close, detailed work.

## CYBER RISKS

65%

### CLASSES OF INSURANCE

#### RISK SUMMARY

- Heavy dependency on digital technology/integrated IT systems;
- Security/privacy breach - presence of large volumes of sensitive personal and cooperate data;
- Data breach – laptops/data sticks being left on various places, emails sent in error, sensitive documents not being properly shredded, back-up hard drives being lost;
- 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, libel or slander, 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;
- 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.;
- Compliance and control issues - possible lapses on policies, procedures and protocols on cyber security and related matters (if applicable);
- Cyber threat relating to - Bring your own devices (BYOD), download and install personal, or unauthorised software, use of USB or other media devices etc;
- Extra expenses following a cyber incident including forensic investigation costs, crisis management expenses, notification and monitoring expenses, remediation/other extra expenses;
- 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

31%

### 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:

- Some travel staff may perform hazardous activities (sometimes remote locations/unsafe worksite/s) which may require a high level of physicality and use of heavy equipment.
- Other 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
- 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](http://www.4sightrisk.com.au) or reach out.



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