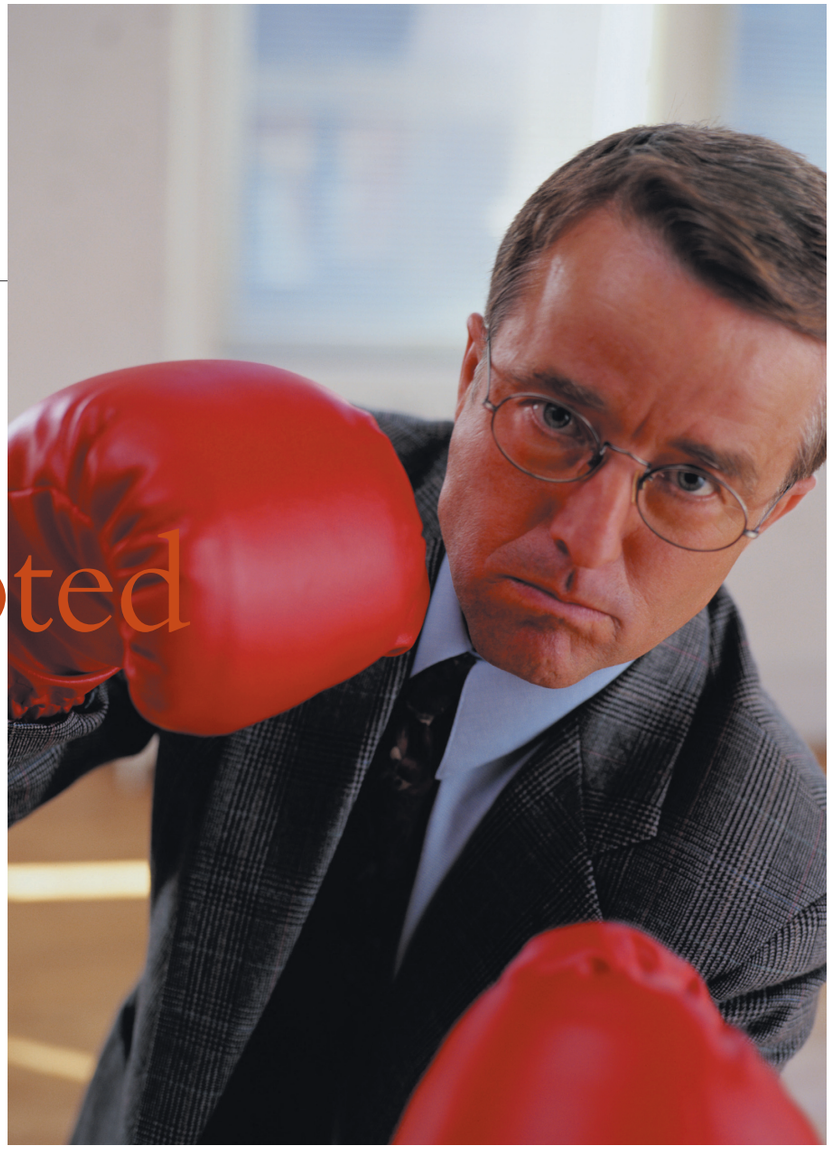


AN ACHILLES' HEEL ON THE CORPORATE BATTLEFIELD

Business, Interrupted

By David Choo

When Homer wrote the Iliad and told of the brave exploits of warriors like Hector and Achilles, I am sure he did not foresee that the one who would be immortalised would be Achilles, not for his strength, but for his weakness – his famously exposed heel. All too often, it seems that the good companies die young because of a crucial weakness, a weakness that is exploited by opponents as they fight for survival on the corporate battlefield.

The founders and leaders of corporations know best the tricks of their trade in order to stay afloat and move ahead – business risks can be easily identified by those in the know. But it is fortuitous events, events that may or may not happen, which are generally left unattended to. In short, business interruption represents most companies' glaring Achilles' heel.

Most businesses have got round to insuring assets like factories, offices, equipment and stocks against hazards like fire, explosions, earthquakes, storms, floods and other so-called extraneous perils, including aircrafts falling on their buildings. Once that was thought laughable, but not since 11 September 2001.

So why don't more businesses think about loss of profits or potential interruptions? One reason is that this is a class of insurance that many insurance advisers find hard to explain. Another reason is that many businesses are required by mortgagee banks to insure their physical assets. These banks are concerned about protecting their loans and no more than that.

WHAT ARE THE ODDS?

But a common reason cited by business owners for not wishing to take business interruption or loss-of-profits insurance is that it is unlikely to happen. Given that the risks being insured against are essentially the fire and other extraneous perils likely to affect physical assets, this view is not logical but perceptual. It reflects the desire to save insurance premiums wherever possible, but this decision can prove disastrous.

Some years ago, for example, a fire destroyed a tyre company's facilities and much of its stock. It took a while for a new building to be erected and the operation to be put back to normal. As if the loss of physical assets wasn't bad enough, the business interruption loss was substantial as well. Fortunately, there was insurance for the physical assets and business interruption, and the company was able to continue operating largely unaffected by the incident, remaining profitable.

WHAT IS BUSINESS INTERRUPTION INSURANCE?

It is not my purpose to go into the details of this rather complex class of insurance, but merely to mention briefly its purpose and rationale.

Business interruption or loss-of-profit insurance provides payment for financial loss that results from physical loss or damage to insured property caused by an insured peril, such as a fire or an explosion.

The rationale is that following a covered loss, a company's business operations would be affected and it would likely suffer a loss of earnings and incur additional expenses to put the business back on its normal footing.

A business interruption policy can, in short, pay the cash needed for all these eventualities and prevent the collapse of a business.

Such insurance could cover the hampering of a manufacturers ability to make their product, for example, or the destruction of a retailer or wholesaler's merchandise or building, which would clearly make it difficult to trade. A professional practice could be affected by the destruction of its office and records, while damage to (or the destruction of) a rental building would obviously affect a company's rental income.

Besides the normal 'physical' risks like fire and other extraneous perils, business interruption insurance can also be extended to cover causes of business interruption such as the failure of public supplies from power-generation authority, or denial of access due to a disaster at neighbouring facilities. A policy might also cover damage away from the premises to key suppliers and customers, human infectious diseases like SARS (severe acute respiratory syndrome) or bird flu, and the effects of a terrorist strike.

WHAT ARE THE EFFECTS?

If we assume that the cause of business interruption was a fire, the typical effects might include a drop in cash flow, especially while maintaining the business in the face of the immediate loss of physical assets. Salaries and wage payments may need to be continued without the normal income derived from operations, or there could be redundancy or retrenchment payments to be made.

If a company is still able to operate, an insurance policy could also cover any increase in the cost of production, and the effect on net profit due to a drop in sales, for example.

A business interruption policy can, in short, pay the cash needed for all these eventualities and prevent the collapse of a business. In most cases, the losses resulting from business interruption exceed the loss of the physical assets, especially where plants and equipment are involved.

For businesses that are able to rent alternative premises and set up operations quickly, there is still the loss of business that can result from a change of location or clients moving away in the period of business dislocation. The period of indemnity or coverage may be shorter for service-related business, but that would also mean a lower insurance premium.

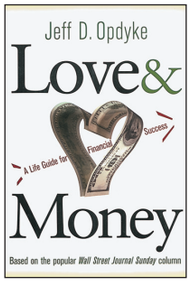
Remember that Achilles fell to a lesser warrior, Paris, because of his exposed heel. Without business interruption insurance, a vibrant and profitable business can similarly bite the dust when the arrow of misfortune hits. **si**

David Choo is managing director of Promiseland Independent Pte Ltd, an independent financial advisory firm.

BY THE BOOK

LOVE & MONEY
A Life Guide for Financial Success
By Jeff D. Opdyke
255 pages

Publisher:
John Wiley & Sons
ISBN: 0-471-47658-7



Behind the Bedroom Door

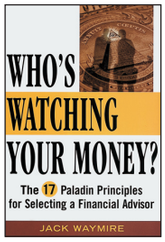
Jeff D. Opdyke's Love & Money is essentially a guide to personal finance and planning, but with a little more emphasis on the 'personal' than the 'finance'. Money, after all, is a central part of almost every adult's life, so what happens when couples set up joint bank accounts, one partner starts to out-earn the other, or a newly-wed wife discovers her husband has considerable debts?

All these issues (and plenty more, such as how parents teach their children the value of money and set holiday budgets, for example) are dealt with frankly and with humour. Just because the book's geographical and cultural references are mainly drawn from the US and Mr Opdyke is a personal finance reporter for the Wall Street Journal does not undermine the relevance of his observations for an Asian audience.

A book to guide you through life, not just your finances. **si**

WHO'S WATCHING YOUR MONEY
The 17 Paladin Principles for Selecting a Financial Advisor
By Jack Waymire
236 pages

Publisher:
John Wiley & Sons
ISBN: 0-471-47699-4



Finding Mr Right

Jack Waymire's view of financial planning and investment can be described succinctly thus: it's easier to learn how to select a competent and trustworthy adviser than it is to learn how to invest your own money over decades. You can't control the volatility of the markets, he argues, but you can control the quality of your adviser.

Some of the advice he has to offer in Who's Watching Your Money is fairly obvious ("High-quality advisers who are competent and trustworthy do not solicit business over the telephone from investors they do not know"), but more than a quarter of a century in financial services have enabled Mr Waymire to observe closely the different agendas of advisers, advisory firms and investors, and to write an insightful book.

The best way to secure your financial future could be to find the right adviser for the job. **si**