Insurance

Whether you’re a sole trader, contractor or run a company, you need to guard against work and business risks. Insurance can compensate you or your business for losses, but you must get the right type — no policy covers everything.

Insuring business activities

Disruptions to your business can be stressful and come with big costs. Insurance is a product you can buy to protect you and your business against specific risks.

You pay premiums to an insurance company — often monthly or once a year — and the insurance company promises to help if something goes wrong, eg by paying for repairs, replacements or covering costs.

The risks you face and the policies available to cover these risks vary from business to business, and by industry.

Find your risks

Working out what your risks are means answering two important questions:

1. What could go wrong at work or with my business?
2. Have I got it covered?

Common risks include:

- fire or natural disaster, eg floods, earthquake
- theft, eg equipment
- stock damage
- loss in transit
- IT crime or hacking
- injury or property damage caused by your products or services
- product recall
- employment dispute
- health and safety breach.

There are also risks you may not realise insurance can cover, including:

- losing a key staff member
- a sudden drop in revenue
- being sued.


Types of insurance
No single policy can cover all your business risks so it’s likely you’ll need more than one policy. Here’s an overview of common policies bought by businesses. For all types, make sure you know what is and isn’t covered.

Assets

Asset insurance can cover theft and damage items you own and use for work, eg computers, furniture, tools and stock. There are two main types:

- **Indemnity**: The most common policy type, which takes wear and tear into account when paying your claim.
- **Replacement**: This pays full costs of replacing an item.

Commercial property

One of the most common form of business insurance. It covers damage to buildings you own, eg from fire or flooding. Check to see if your policy also covers earthquake damage.

After the 2011 Canterbury earthquakes, insurers now want more information before agreeing to earthquake cover, including:

- when the property was built
- what, if any, strengthening work has been carried out
- what ground it is built on, eg reclaimed land or bedrock
- its seismic rating.

If you don’t know the answers, an engineer can tell you.

If you run your business from home, household insurance does not automatically cover your workspace or assets.

Business interruption

This covers you against losses resulting from an interruption to your business for agreed periods when you can’t trade but still have costs, eg wages and rent. You might make a claim if your business has to close unexpectedly, eg after a natural disaster. To see if this type of insurance is for you, use the checklist on the Insurance Council New Zealand’s Covered website.


[Common business assets checklist](/risks-and-operations/equipment-premises-and-assets/common-business-assets-checklists/)

[Continuity and contingency planning](/risks-and-operations/planning-for-the-unexpected-bcp/continuity-and-contingency-planning/)

Liability

Useful if you do work for other organisations. Liability insurance covers costs if that organisation sues you or one of your employees. There are several types of liability insurance, the most basic of which — general liability cover — all businesses and self-employed people should have. If you’re a contractor, liability insurance might be one of the terms and conditions in your contract.

Commercial vehicle

If you use a vehicle for work, you should at least have third party insurance. If you use your vehicle a lot, or your business has a fleet of vehicles, think about getting fully comprehensive cover. Private motor insurance does not cover the vehicle when it’s being used for business.

Key person

If you’re a small business that relies heavily on one person, eg the owner or chief executive, key person insurance — sometimes called key man insurance — covers the costs of suddenly losing them.

Cyber

Cyber security — and the risks to your business — is a broad area covering data breaches, website hacking and
IT scams. Make sure your cyber insurance policy covers your areas of risk. Your broker should help you understand what a policy does and doesn’t cover. If you are sorting out your own insurance, read the fine print to make sure it will help you recover from a cyber attack.

Protecting business data (/risks-and-operations/it-risk-and-avoiding-scams/protecting-business-data/)

Contract work

This covers you for extra costs while doing alterations to your business premises, eg accidental damage. It does not cover you for liabilities related to work you do under contract to other organisations — that comes under liability insurance.

Marine

There are different types of marine insurance for personal and commercial vessels, eg cargo or fishing.

**Hull:** This covers damage to your vessel’s hull, not its contents or other parts of the vessel.

**Marine cargo open policy:** This covers goods your vessel may be carrying, eg around New Zealand or overseas.


Other types of insurance

**Travel:** Commonly used to cover employees going overseas for work, eg for lost baggage, missed flights or emergency medical care.

**Transit:** This covers you if equipment or stock is damaged when you or a freight company is moving it.

**Product recall:** Covers the costs of recalling a product you make or sell, eg because it’s defective or dangerous.

**Trade credit:** If you do business overseas, trade credit insurance covers you for loss of revenue, eg if your customer won’t pay.

Insurance cover for contractors (/getting-started/advice-for-contractors/insurance-cover-for-contractors/)

When to think about insurance

It’s a good idea to start thinking about what insurance needs you have when you’re starting out — even if these needs are very basic.

Review your needs at least once a year to include your growth or other changes. If your revenue is going up, for example, it’s a risk to let a business interruption policy simply roll over annually at the same level. And if you own your premises, check the sum insured will still cover the costs of rebuilding.

When setting your insurance budget, think about the cost of NOT having the right cover.

Your insurance policy

Insurance policies are legal documents, which need to be read and understood carefully. They might contain jargon or legal terms you haven’t come across before, or don’t understand. If in doubt, talk to an insurance broker before you sign any policy.

Disclosure

By law you must give your insurer all details they ask for, and any other information that may influence your policy, eg about workplace accidents or past claims. If you don’t tell the truth, you may not be paid out on your claims.

If you run your business from home, tell your insurer — you may have to change or increase your domestic insurance. If you drive your own vehicle for work, tell your insurer how much you use it, eg 10% of your working time.
Excess

This is the amount of money you agree to pay towards fixing something, eg damage or a claim against you. This is agreed when you take out or renew a policy.

Excess is usually a dollar figure, eg you pay the first $350 of any claim, but can be in time, eg no insurance cover for the first two days of your claim.

The lower the excess, the higher your premiums will be. Do your sums. How much extra are you paying a year to bring down your excess? If you are unlikely to make many claims, is it worth paying higher premiums?

A suitable excess level depends on:

- how much risk your business has
- how likely risks are to occur
- what the potential cost of losses are.

An insurance broker can help you find the right level of risk for your business.

Managing risks

If something goes wrong, you must do your best to put things right. Your insurance is there to help cover the costs, not do the whole job. Make sure you tackle problems head on. Don’t wait for insurance cover to kick in before acting.

Get advice

Insurance is a specialist area. Many people wrongly assume they can get one insurance policy — or a package of policies — that covers all their business activities. This isn’t so.

Insurance policies are also legal documents, with language that can be specific and complex.

An insurance broker can help you unpick anything that’s unclear — and find policies that suit you. Choose a broker with experience advising businesses like yours. It’s a good idea to ask people in businesses like yours if they know a good broker.

Going at it alone and getting your cover directly through an insurance company can be cheaper. But there is a risk you’ll sign up to a policy that doesn’t cover all your needs.

What brokers do

The first thing a good broker will do is assess the risks you face. You then have two choices:

1. Lower these risks by making changes in your business.
2. Pass on the risks to a third party — an insurer.

If you choose to get insurance, your broker will take your risks to the market to find the right cover at the best price. Brokers must be registered to operate. Search the Financial Service Providers Register to find out if they are.

Prepare for advice

To speed up the process of getting insurance, useful steps to take before meeting a broker include:

- Put a realistic value on your assets — find out how much it would cost to replace the items you want to insure.
- Get a set of current accounts and find important numbers, eg gross profit.
- Gather relevant facts about your insurance history, eg past claims.
- Look at your business processes to spot risks. What might happen if you, a major client or supplier suddenly has to stop trading?
Common mistakes

Avoid these common insurance pitfalls:

- Not reviewing the sums insured — make sure you review how much you need covered at least annually, or after any major change to your business, eg new premises or product line
- Not telling your insurer about important changes, eg to your business model — you can’t claim for something not covered in your policies
- Not telling your insurer the whole truth, eg a legal issue you didn’t mention — keeping back crucial information can lead to a rejected claim
- Thinking insurance policies make your risks go away — the risks are always there, but the right policies will help you manage if something goes wrong.

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