

Cabinet Makers – Insurance Fact Sheet

This fact sheet has been designed to create greater awareness of the insurance issues faced by **cabinet makers**. We hope this fact sheet will provide some practical information that will assist the industry and its operators in making more informed decisions about their insurance arrangements.

Cabinet makers come in all shapes and sizes. Some business may design, manufacture and install, whilst others choose to provide mono-line services such as; manufacture or design or install. It is important that each business owner or operator seeks their own advice from a qualified advisor. Insurance programs should be tailored based on a client's appetite for risk, financial capacity and risk mitigation strategies. This will vary with every business..

The Issues

Managing Risk = Managing Costs

The insurance industry generally considers cabinet maker workshops to be a relatively **high fire risk** by industry standards. When insurers assess the costs of property and business interruption insurance for cabinet makers they are particularly interested in assessing the “housekeeping” procedures including dust management/extraction, fire protection, managements attitudes and pro-activeness to risk management and flammable controls. Operators who have documented procedures and controls in place to manage these exposures will be looked upon more favourably by insurers which should ultimately be reflective in the premiums charged.

For those operators who want to take control of their insurance premiums and showcase their business in the right light they will ultimately benefit by helping drive some cost efficiencies through their business. No doubt there will be other tangible benefits such as enhanced working conditions, and staff professionalism helping to drive the right culture throughout the business. This can lead to an improved reputation thereby attracting employees and customers alike.

Independent surveys are available to those who want to benchmark their business to industry standards.

Prioritise Your Protection

Insurance can be a significant cost for most cabinet makers. It is therefore important that you consider prioritising your insurance spend on a “must have basis”. What I mean by this is that you should consider the type of events or losses you could afford to cover yourself based on your financial position VS those that you could not afford and therefore should be transferred to an insurance policy. There are three primary covers that we would normally consider to be catastrophic in nature and would therefore consider to be “must have” covers. These include: **property, business interruption and legal liability** cover. Cover for items such as glass, money, burglary could certainly hurt the hip pocket if you incurred a loss in these areas however in most cases these losses would not put you out of business. You should seek advice to ensure you have prioritised your insurance on

a “must have basis” which is driven by your particular circumstances and operations. This will vary from business to business.

Liability Issues - Subcontractors

Many businesses these days are looking for a more flexible workforce so it is easier to adapt to the ever changing economic environment. Consequently, subcontracted labour has become a popular tool to manage this labour dilemma. When purchasing public products liability it is important that both the “principal” and the “subcontractor” be aware that public products liability policies will generally only cover the Named Insured within the policy and their employees. Most policies will not typically extend to cover subcontractors. If both parties agree that it is the intention to cover the subcontractor then this should be agreed by the parties and written into the public products liability policy accordingly.

It should be noted that we would not recommend this course of action.

We recommend each party maintain their own insurance in their own right. Once another party becomes a Named Insured on your policy they effectively enjoy the same rights under the policy as you do. This may cause delays with claims handling, a very quick erosion of the sum insured if both parties are jointly sued from the one incident, disclosure concerns, claims history complications and premium contributions by each party.

When engaging subcontractors or labour hire personnel you should always have a process for reviewing the currency of their insurances.

You should discuss this with your advisor and seek advice.

Injury to Subcontractors or Labour Hire

Insurance companies are becoming increasingly concerned about the number of Workcover/Workers Compensation recoveries being made against “Principals” who engage subcontractors or labour hire personnel to perform work on their behalf.

Public product liability insurers face escalating claims costs from Workcover/Workers Compensation insurers who are seeking to recover their claims costs from injured workers engaged by Principals to perform subcontract work. Principals have a duty of care to subcontractors and or labour hire personnel who work under their supervision or control. As a consequence, some public products liability insurers are imposing higher worker to worker excesses or even going as far as excluding personal injury claims to subcontractors or labour hire working under your controls.

All companies should be aware of this risk and make sure their public products liability policy will meet their expectations

Cabinetry and Associated Products in Transit and Onsite

It is often the case that cabinetry is manufactured within a workshop then transported to site for installation. In many cases you would receive progress payments during the manufacture process but final payments are not typically made until some time after the installation work has been completed. Most cabinet makers will have property insurance policies that cover the work in progress and at completion whilst at the workshop. However once the cabinetry leaves your premises it is important to consider who is responsible for loss or damage until handover or the final payment is received? This can vary depending on whether the cabinetry is covered under a contract works policy for new builds or renovations by a builder or whether you are contracting directly with the customer. It is important that these issues are considered so decisions can then be made on whether insurance is required for these exposures.

Design Services

Cabinet makers who provide design services, particularly for a fee, need to consider whether they are still protected by their public products liability policy in the case of an injury or property damage caused by the design. Most public products liability policies exclude personal injury and/or property damage claims arising from “Professional Services”, such as design, where provided for a fee. Where design services are provided for a fee you should consider the need for Professional Indemnity Insurance. This will provide the additional cover for “economic losses” that might arise due to errors or omissions in the design or functionality. When considering Professional Indemnity insurance you should make sure that it **does not** exclude claims arising from personal injury or property damage matters.

Cabinet makers who provide design and manufacture services for their customers will often provide the design services without a fee **IF** the cabinetry is purchased from them. Many public products liability policies will still respond to personal injury and/or property damage claims from the design services **provided a fee has not been charged for this service**. A public products liability policy will not however cover pure “economic losses” in the absence of an injury or property damage trigger.

You should discuss this with your advisor as all policies will vary - as will your needs.

Business Interruption = Cash Flow Protection

Business interruption insurance is often misunderstood or insured incorrectly. Having the right cover and sum's insured can be the difference between a business getting started again after a major loss or disappearing.

If you manufacture or import cabinetry then we would consider this to be one of the three most important covers in your insurance program. The policy provides ongoing cash flow and covers additional expenditure that may be incurred if the business is unable to operate at its usual capacity following an insured event. Some equipment, such as CNC machinery can take months to replace due to shortages of equipment in Australia or delays in importing from overseas. Even after

replacing all the damaged property and stock you may find a reduction in sales for an extended period due to customers finding alternative suppliers during your downtime.

It is always helpful to have a contingency plan when deciding on the level of coverage required.

Contractual Liability

Contractual arrangement's between parties is becoming more prevalent than ever before. It is important to note however that if you enter into a contract with another party and you assume additional liabilities beyond the normal liabilities at law then your insurance policy may not respond when you need it. This is referred to as a 'contractual liability' or an 'assumed liability' exclusion. It is often found in legal liability policies. These 'assumed liabilities' can be found in various forms but we typically find them in warranties, guarantees, indemnities, releases, "hold harmless" clauses and obligations to maintain insurance.

You should discuss this with your advisor and seek assistance to review your insurance contractual obligations before you agree to them.

Unregistered Mobile Plant Use in Public Places (forklifts etc)

Some cabinet makers have unregistered mobile plant such as forklifts which are being used to load and unload vehicles in public places such as car parks and/or on footpaths. Every state and territory has differing legislation around the registration requirements for self propelled mobile plant. It is however important to note that many states will require self propelled mobile plant to be **registered or conditionally registered** when being used on a "road". However it should be noted that the definition of a "road" in Queensland for example includes areas such as: **shopping centre car parks, railway crossings, areas open to the public for use as a road and road-related areas. A road-related area is part of a road and includes areas such as footpaths and nature strips.**

If you operate an unregistered mobile plant item on a road or public place as defined by each state and you cause personal injury or property damage there is a real danger that you will be uninsured. Public liability policies will not respond to personal injury or property damage claims if you were required by law to register your mobile plant at the time of the incident. You should review your state registration laws to determine your need to register your mobile plant.

Hired In Equipment

Some businesses will from time to time hire in plant or equipment from hire companies to perform particular contracts. You can typically buy insurance from the hire company or arrange the cover yourself. Often it is more cost effective to arrange the insurance yourself however you need to be aware of some potential pitfalls:

- Who is responsible to insure the hired equipment?
- Does the equipment need to be insured for its replacement or market value?
- What risks or perils do you need to insure the equipment against?
- Does the equipment need to be insured in transit to and from the supplier or between jobs or at one location?

- Do you need to insure the rental costs being incurred if the item is damaged and being repaired and not in your use?
- Do you need to waive your subrogation rights or indemnify the hirer in the event of loss or injury from the use of the equipment?
- Is there an excess that you are responsible for if the insurance is arranged by the hire company?

The hirer's terms and conditions of hire will typically set out the terms of the hire arrangement and you should review these carefully to ensure you don't get any nasty surprises if you are unfortunate enough to incur damage to the hired plant or equipment.

Employees Tools

It is not uncommon to find certain employees, particularly installers that supply their own tools of trade to perform their work. Often no one thinks about the insurance of employee's tools when an **employer** requires an **employee** to supply his tools to perform work on behalf of the company.

In reality the tools can be insured by either the employee or the employer depending on the agreement reached between the parties. Either way this should be documented within the employment contract so each party is aware of their responsibilities and any necessary insurance can be arranged if required.

Management Liability Insurance

Cabinet makers often insure their property, loss of profits and public products liability exposures which are some of the key risks that a business faces. However there are numerous "economic risks" that a business owner or manager faces that are often overlooked. Some of these risks include:

Statutory Employment Breaches such as wrongful dismissal, sexual harassment, bullying and discrimination issues that can arise in workplaces from time to time.

Misappropriation Of Trade Secrets such as alleged misappropriation of confidential information from a previous employer including customer names and contacts, designs or even employee files.

Theft / misappropriation of funds by an employee working for you. (NB this is not typically covered by a Burglary policy)

Occupational Health and Safety Fines or Penalties from work injuries to employees

Tax Audit costs incurred to engage your accountant to comply with an ATO audit.

These are a few examples of the "economic losses" a business can incur that is not covered under a traditional insurance program. Every business that engages staff has an exposure in many of these areas and even the most tightly controlled businesses are not immune. After the property, loss of profits and public products liability policies we would recommend consideration of this cover in your priorities list.

General Advice Warning

This advice is of a general nature only and has not been provided with knowledge of your own particular circumstances or needs. Should you require advice which is tailored to our own needs please contact us. Please refer to our Financial Service Guide for more information about our services.