

WHY do some small and medium enterprises (SMEs) fail? Is it because they are not well managed or is it that they lack funding? These reasons may hold some truth but there is another hidden reason why SMEs falter in their businesses.

Many of them do not have a comprehensive business financial protection plan that ensures their businesses are protected in the event of an unexpected catastrophe.

The current hike in fuel and commodities prices had made adequate business protection plan even more important.

Research worldwide had shown that many such enterprises are not aware of the importance of having an adequate business protection plan and even if they were, they did not place a priority in investing in one.

Findings in the region had also shown that SMEs thought that contingency plans were excessively expensive and without obvious payoff (barring any unforeseen disastrous circumstances) to justify the spending.

A research commissioned by the Information Commissioner's Office in Britain last year found that SMEs were less aware of the principles of the Data Protection Act than larger organisations.

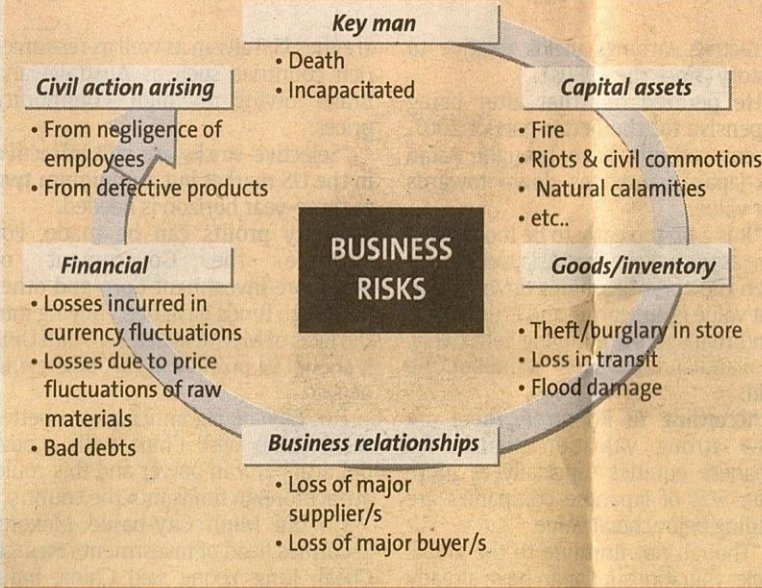
Less than a quarter of the SMEs surveyed were aware that they were

SMEs need to be well covered

Business plan a necessity in view of fuel price hike

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Key components in SME business risk management



»To protect their business they must look at ways to manage their risks«

PETER CHEAH

Peter Cheah

market risks.

The difference between key-man protection and personal insurance is that the former is developed mainly for the protection of business debts, for example where the business has obtained financing; and the latter is used to protect the loss of income for the family and dependants.

reviews and provide ideas for the correct risk management and protection solutions that SMEs can take advantage of.

“The team also works closely with HSBC Amanah Takaful Sdn Bhd, a group member for Takaful insurance, and has a comprehensive suite of takaful business insurance solutions that are very suited for the SME sector.”



required to keep customer information accurate and up to date under the Act, and half of those surveyed do not recognise the importance of keeping personal information secure. The research covered 813 organisations in Britain.

Although insurers and financial institutions in Malaysia of late have been rolling out financial business protection products, nonetheless it is believed the level of penetration of such products amongst SMEs is still low, triggered mainly by a lack of awareness.

Some of the key components of business risks that an SME should consider include the possible death or incapacitation of the key man or business owner, fire, riots or natural calamities affecting capital assets,

theft, burglary, damage by flood affecting business assets in general, concentration risks due to loss of major suppliers/buyers and financial losses incurred in currency fluctuations.

Concentration or dependency risks occurs where a company depend on either a single major buyer or supplier for its business and this could be fatal if the supplier decided to rescind the contract to supply to the company or the buyer decided to opt for another competitor's products.

In such circumstances, what are some of the things that an SME could do to protect its business to ensure it is sustainable?

HSBC Bank Malaysia Bhd director for SMEs, insurance and investment

Peter Cheah said for concentration risks, it would pay to hedge via having multiple and well spread number of suppliers and buyers to ensure that the loss of a major party would not lead to the loss of the business.

"To protect their business, they must look at ways to manage their risks. There are four ways to do this. Firstly, one could transfer the risk, secondly, one could work towards reducing the risk or its impact, thirdly, one could find ways to eliminate it and lastly to accept or take on the risk."

Some of the ways to manage these risks include buying business insurance for its production assets, consider key-man insurance coverage, consider and find ways to reduce concentration/dependency risks and

Then how much should a business set aside in terms of investment into protection? Cheah said ideally, it should be for up to the value of its indebtedness to third parties, which excluded protection of the company's assets (fixed and floating) via other forms of insurance like fire, burglary, marine cargo, amongst others.

As the world's local bank, he said HSBC, in an advisory capacity, could assist SMEs in understanding and then proposing to them business financial protection solutions.

"To get through what is really necessary, there is a need to first understand the business, and understand where the major risk components are. Through our SME Business Team, we can undertake business

With the rise in commodities and fuel prices, he said SMEs would have to come to terms with changing cost structures and devise ways in which to combat these rising costs.

Cheah added SMEs would have to review their cost structures, or focus on higher margin products and services to adapt to these changes.

"Through the bank's SME Business Team, HSBC is ready to listen and understand from our SME clients their concerns, requirements and ideas to adapt and work out solutions collectively with them.

"One basic cost saving measure for SMEs in the current price hike scenario is to move towards electronic banking and we are keen to share how this medium can help SMEs manage their costs," he added.