



NEWSLINK



The perfect policy at the best price

INSURANCE TODAY

Autumn 2011

DISASTERS LEAD TO SCRUTINY OF INSURANCE

How insurance responds to natural disasters has come under close government scrutiny following Australia's unprecedented summer of cyclones, floods and bushfires with reviews of policy definitions and the scope of cover underway.

To date, insurers have received 105,000 claims for damage caused by Cyclone Yasi in North Queensland, the floods in South-east Queensland, floods and storms in Victoria and the Perth bushfires, worth an estimated \$2.8 billion.

The Federal Assistant Treasurer, Bill Shorten, has announced a review of disaster insurance in Australia, focussing on insurance arrangements for individuals and businesses "for damage and loss associated with flood and other natural disasters."

Mr Shorten said that recent widespread flooding and other extreme weather events had caused devastating losses, which had been borne by individuals and businesses, State and local

Government, community organisations, the Australian Government, private insurers, and reinsurers

The Government was concerned that appropriate national measures were in place to foster more complete sharing of risk and equitable sharing of the cost of damage and loss resulting from floods and other natural disasters.

Among the issues the review will examine are the ability of the private insurance market to offer adequate and affordable insurance cover for householders, small businesses and governments for flood and other natural disasters and whether there is a case for subsidising insurance premiums for individuals and small businesses facing the highest premiums in the areas of highest risk.

National Insurance Brokers Association CEO, Noel Pettersen, welcomed the review and said NIBA would be making a contribution.



WHAT TO DO BEFORE A DISASTER STRIKES

The natural disasters that have hit Australia over the summer have led to a number of hard luck stories about businesses finding they were under-insured. It's too late to check your policy after a disaster strikes, whether it is caused by Mother Nature such as a storm, a devastating fire caused by an electrical fault, or man-made, like theft or vandalism.

Experience shows that many small and medium enterprises which do not have adequate insurance protection do not survive these setbacks.

A survey by the Insurance Council of Australia of the small to medium sized enterprise sector found that less than two thirds have adequate insurance. According to the survey, 26% of all small to medium enterprises do not have any general insurance and sole traders are the most exposed with 40% having no cover.

Many SMEs are not aware of all the cover they might need. For example, of those insured businesses which had lodged a claim in the previous 12 months, 19% were for business motor insurance, 16% for burglary and theft and 13% for machinery breakdown.

Machinery breakdown covers equipment such as freezers, refrigerators, ovens and mixers and loss of stock as a consequence of the breakdown. Yet despite this being the third highest type of claim, only 43% of those insured felt this type of cover was applicable to their business.

If you have a number of individual policies covering different risks, we can advise you on how to pull it all together in a package tailored to your type of business.

The advantages include simplicity, a wider range of covers, including some you may not get by taking out individual policies, and some cost advantages because of the reduced number of transactions.

The typical covers in a package include:

- Fire, storm and malicious damage to your business premises and contents;
- Business interruption is another essential cover which helps you stay afloat by protecting against loss of profits if your operations are disrupted by damage to your business by specific events such as fire or storm damage;



- Machinery breakdown as mentioned above;
- Fidelity covers theft by an employee of money or stock;
- Public liability covers you for unintended death or injury to a member of the public or damage to their property while they are on your premises;
- Product liability comes into play in the event of an unintended death or injury caused by a product which you supplied, sold, serviced or repaired;
- Personal accident and illness cover is particularly important if you are a sole trader or your business has a small number of partners.

CLEANING UP CAN BE COMPLICATED



Under-insurance can have wider ramifications than some business owners realise, particularly when it comes to cleaning up after a catastrophic event.

Even before you start to repair or rebuild, cleaning up is costly. But it's all covered by insurance isn't it?

After going through the trauma of a natural disaster or other significant event such as a major fire, many business owners are surprised to find that there is a cap on the amount they can claim for the cost of removing debris.

These are known as sub-limits and can be a set figure, say \$100,000, or a percentage, usually 10% of the sum insured. Neither of these may be adequate for a business which is under-insured.

In a recent example following the floods in Queensland, a building owner was surprised to learn that the cost of pumping out an underground carpark was \$500,000.

The Managing Director of risk assessment advisers, LMI Group, Dr Allan Manning, warns that many sums insured may not be sufficient to cover clean-up, particularly if the debris includes toxic or dangerous waste such as asbestos products.

"In recent claims involving a paint manufacturer in one case, and a supplier of agricultural chemicals in another, the relevant State Environmental Protection Authority (EPA) insisted on very stringent procedures to remove the debris including the burying of the contaminated material in large concrete canisters. This resulted in the cost of removing the debris exceeding the cost of rebuilding the damaged building," he said.

Dr Manning said the location of the building, for example on a main road, may also have an impact on cost.

"This may involve traffic diversions or special parking permits. All this adds to the cost. In more remote locations the expense of removing environmentally dangerous debris can be considerably increased if there is no tip nearby that is licensed to receive the waste material.

"There have been reported cases where the EPA is not certain themselves on how to best dispose of some debris. This can mean the storage of the material for an extended period until agreement can be reached on how disposal is to take place, which again involves more cost."

Another problem arises if a tenant abandons their debris leaving the landlord to meet the cost of removal. "An allowance for this eventuality is recommended as the time taken to track down and seek recovery from the tenants often slows down the reinstatement process. This is particularly the case where the tenant elected not to insure, not insure adequately or not insure for flood where the loss was caused by flood," he said.

Dr Manning said an important aspect of typical packaged policies was that cover for the removal of debris usually included the insured's liability to clean up nearby property as well as roadways, railways, and waterways.

"What many people do not appreciate is that Environmental Protection Authorities have the power to order an insured to remove the debris that escapes from their premises as a result of a fire regardless of what caused the fire. Remember that the soot and smoke from a fire does not necessarily go straight up and come straight down where it started. Similarly, water used to fight the fire will not necessarily be confined to the insured's property."

Talk to us about adequate cover for cleaning up after a disaster.

BAD WEATHER ADDS TO PREMIUM PRESSURE



While insurers are counting the cost of a summer of catastrophes, a survey of NIBA members has revealed the upward pressure on premiums had started before disaster hit.

In December, brokers across Australia were asked to rate the market for domestic and commercial insurance between 1 and 10 where 1 was “softest” that is, plenty of capacity in the market with insurers willing to discount premiums, and 10 was “hardest” – terms and conditions tightening and premiums increasing.

The majority of brokers rated the market for home insurance and other domestic lines as hardening, while a third had the same opinion about the commercial market.

Most described premium increases as ‘reasonable’, with some insurers willing to offer discounts to attract new business.

The commercial lines which were most affected by increases were Business Pack (a combination of cover for small business), commercial property and motor vehicles, and public and product liability, with the majority in the 1 - 9% range.

Business interruption, directors and officers liability and professional indemnity were largely steady or subject to modest increases.

The biggest increases applied to hard to place risks, that is, where insurers considered the risk to be higher, often based on previous claims experience.

However, insurers are now counting the cost of \$2.8 billion in claims from cyclones, floods, storms and bushfires around the country, which has sparked speculation that reinsurers, who have borne the brunt of these events, will increase premiums, which will in turn force underwriters to increase the amount they charge their policyholders.

In international reinsurance terms, Australia and New Zealand would normally be well down the catastrophe pecking order, but they have topped the list in the last two quarters. According to Munich Re, the world’s largest reinsurer, the number of natural catastrophes in the South Pacific has more than tripled since 1980.

As a result of recent events it is expected that along with paying higher reinsurance premiums, Australian insurers will have to retain more of the risk themselves as reinsurers try to limit their exposure to the increasing number of natural disasters.

DISCLAIMER: The information in this publication is of general nature as a service to clients and other interested parties. The articles included herein are not intended to provide a complete discussion of each subject and should not be taken as advice. While the information is believed to be correct, no responsibility is accepted for any statements of opinion or any error or omission.

A PROFESSIONAL MEMBER: Our company is a member of the National Insurance Brokers Association of Australia, the organisation that represents professional insurance brokers in Australia. Membership is based on our professional standing in the insurance industry including our experience and expertise and our ability to meet the stringent requirements of NIBA.



The perfect policy at the best price

Instrat Insurance Brokers Pty Ltd
Unit 4 / 10 Duerdin Street
CLAYTON NORTH VIC 3168
PO Box 500 Mulgrave Vic 3170
Telephone: (03) 9244 7777
Facsimile: (03) 9244 7788

insurance markets and rewards
(imar) Pty Ltd
Email: insure@instrat.com.au
Website: www.instrat.com.au
www.sportslink.com.au
www.imar.com.au