

SPRING 2013

The key to business security



In business, nobody is irreplaceable. But life can be extremely difficult if a key person suddenly isn't able to work.

Some people – due to their extraordinary skills, knowledge or experience – can be very hard to replace. In fact, their absence through incapacitation or death can leave a company in serious strife.

Filling their shoes can be a very time-consuming and costly process, which is why businesses of all sizes should consider key person insurance.

This vital cover acts as a kind of corporate life insurance that insures businesses against damage caused by the loss of an employee.

There is no strict definition for a key person – an obvious example would be a managing director, whose expertise and ability enable the business to run smoothly.

Another would be a financial controller, who has set up a budgeting and reporting system that saves the business money.

Or it could be a specialist engineer

whose knowledge enables the business to win contracts.

So what can key person insurance do for a business?

It can provide financial compensation that enables the company to contract temporary staff or recruit a replacement.

Profits can also be covered, allowing compensation when income is lost due to the absence of a key individual.

This often comes into effect when the loss of a key person leads to the cancellation of a project.

The insurance can also cover the loss of an individual involved in guaranteeing banking facilities or business loans.

Partnership interests or shareholders may also be protected by key person insurance, usually allowing other existing partners or shareholders to purchase the shareholdings.

In larger companies, it's common to identify and insure several people in different roles and with varying ownership capacities.

For smaller companies with partners, it is designed to protect each partner.

Buy-sell agreements make it easy for small business partners to be confident they can survive as a company if anything were to happen to their partner.

When purchasing key person insurance, there are several questions that should be considered.

Which members of staff do you miss most when they go on holiday? How long would it take to replace them? How could the replacement be funded and what losses would the business suffer in the meantime?

Every business is different – so we're here to help you make the decisions that will see your company covered against the loss of that key person.

Consider this: Most businesses take out cover for assets such as their plant, equipment, vehicles and buildings without thinking twice.

But the human asset, with its drive, skill and ingenuity, is the most important asset of all – and the wise business guards against its loss.



Insurers are recovering from the massive cost of the Queensland floods

The up, down and level story of premiums

Like any other branch of financial services, general insurance has its ups and downs. The year 2011 demonstrated that fact very convincingly, with floods and cyclones costing insurers more than \$4 billion.

Much of that amount was passed on to global reinsurance companies. Put simply, these companies act as the local insurers' insurance companies. The local insurers pay a percentage of their premium earnings to reinsurers, which hold massive capital reserves.

Nevertheless, the natural catastrophes of 2011 gave the global industry a severe financial jolt. The floods across eastern Australia, Cyclone Yasi in Queensland, earthquakes in Japan and New Zealand, and floods in Thailand were among the catastrophes that cost the global industry around \$US110 billion.

Not surprisingly, the premiums we pay came under pressure, because Australian insurers' reserves had been affected by the local catastrophes and reinsurers' reserves similarly needed to be replenished. The word around the global markets was that Australian natural catastrophe risks were much higher than originally thought. The pundits predicted that rates would rise sharply and keep rising.

That has come to pass. Most businesses have seen rises in premiums across the board over the past 12-18 months – but generally not at the rate predicted

by the financial experts. Nor has the rise been uniform.

In fact, some types of insurance – professional indemnity is one example – experienced drops in premiums for certain industries.

That's not to say there haven't been some significant rises in premiums. A new market report says property premiums rose 9.64% on average last year, as the industry struggled to recover from the property-related losses of 2011. General liability premiums last year rose an average 2.98%.

But insurers have also been selective in their treatment of risks. They have heeded brokers' representations and gone easy on clients which display good risk management and a good claims experience. Logically, higher-risk industries have come in for sharper premium rises, and some clients have elected to raise their excesses to minimise any financial impact.

This year, however, premiums overall have stayed relatively flat, with average rises minimal, according to recent figures. For example, one report says property premiums in the first half of this year have grown 3.7%, while general liability was up 0.61% in the same period.

However, we hasten to add that every industry and business is treated individually by the insurers, who will calculate according to their claims experience and so-called "appetite for risk".

So what has caused premium rises to start levelling out well short of the sort of rises that were predicted in disaster-ridden 2011? The answers are varied, but from our view there are two stand-out factors.

The first is the global economic situation. Profits from business investments are low around the world at present, and investors diversifying their portfolios have found reinsurance in particular provides better returns than many higher-risk sectors. This is also the experience at Lloyd's of London.

The result is that the reinsurance market has an abundance of capital available, and it's therefore more expansive in its attitude to insurers' risk portfolios.

The second factor is much closer to home. We've said before that the Australian insurance industry is one of the most competitive in the world. That tends to dampen enthusiasm for raising premiums. The best way to build a bigger client base is through competitive premiums and exceptional claims service. And they're paying less than they feared for their reinsurance.

These are ideal conditions for us to work in. We see market competition as a bargaining chip, although we're aware that quality of cover is just as important as price. We can negotiate the best possible premium on your behalf, and we can use our market expertise to secure you the best possible terms as well.

Prepare now for the perils of summer

The long, hot Australian summer is the perfect time to relax. But before your thoughts turn to the holiday season, it's timely – especially in light of the NSW bushfires – to consider your preparation for the increased threat of natural perils the season inevitably brings.

Whatever your business, wherever you are, Australian summers can be dangerous – even deadly – with bushfires and floods the most common threats to businesses across the country.

The Bushfire Co-operative Research Centre says large parts of southern Australia face above-average fire risk this season. This is due to abundant grass growth and high temperatures since January that have led to a build-up of fuel in grasslands and forests.

So fire is a very real risk – and not just for those living in the bush. More than half of all bushfire deaths occur in the outer suburbs of Australian cities.

It is vital to make the proper preparations, regardless of your level of insurance cover.

Preventing damage is far better than the ordeal of having to replace buildings, machinery and even precious possessions.

Even if your business' premises are in the middle of an industrial estate, it pays to clean leaves from gutters, roofs and downpipes, and keep grass around the property short. If you're closing down over the summer holiday period, you'll sleep better knowing you've done all you can to make your workplace secure and safe.

So tidy yard areas and keep them free from any build-up of flammable material such as woodpiles, paper, boxes and crates. Seal gaps in external roof and wall cladding and if you have LPG cylinders in the open air, make sure the pressure relief valves face outwards.

And always keep fire at the top of your mind. It's a very common hazard. It can strike your business premises alone, or it can be part of a larger, spreading fire.

Why should you take the time to have a safety plan in place? Because it's the only way you can be certain your employees are safe. So have an evacuation plan in place and keep it up to date.

These things are just as important for businesses as they are for homes.



Summer beckons, so now is the time to prepare for its good and bad points

As to the risk of flood, the Bureau of Meteorology's annual forecast says we can expect a near-average cyclone season – but this isn't a cause for complacency.

A typical season runs from November 1 to April 30 and averages about 11 cyclones, with some likely to cross the coast. And while most will strike in low-population areas, there's no natural law that says a cyclone can't devastate a larger population centre. Time and again we've seen how heavy rain linked to tropical depressions can be killers.

So check your buildings' walls, roofs and eaves to ensure they are secure. And if you're worried about what you find, do something about it now, while there's still plenty of time to strengthen buildings and make repairs.

Trim trees and branches so they are well clear of buildings, and if you are in a cyclone area, shutters should be fitted to all glass areas.

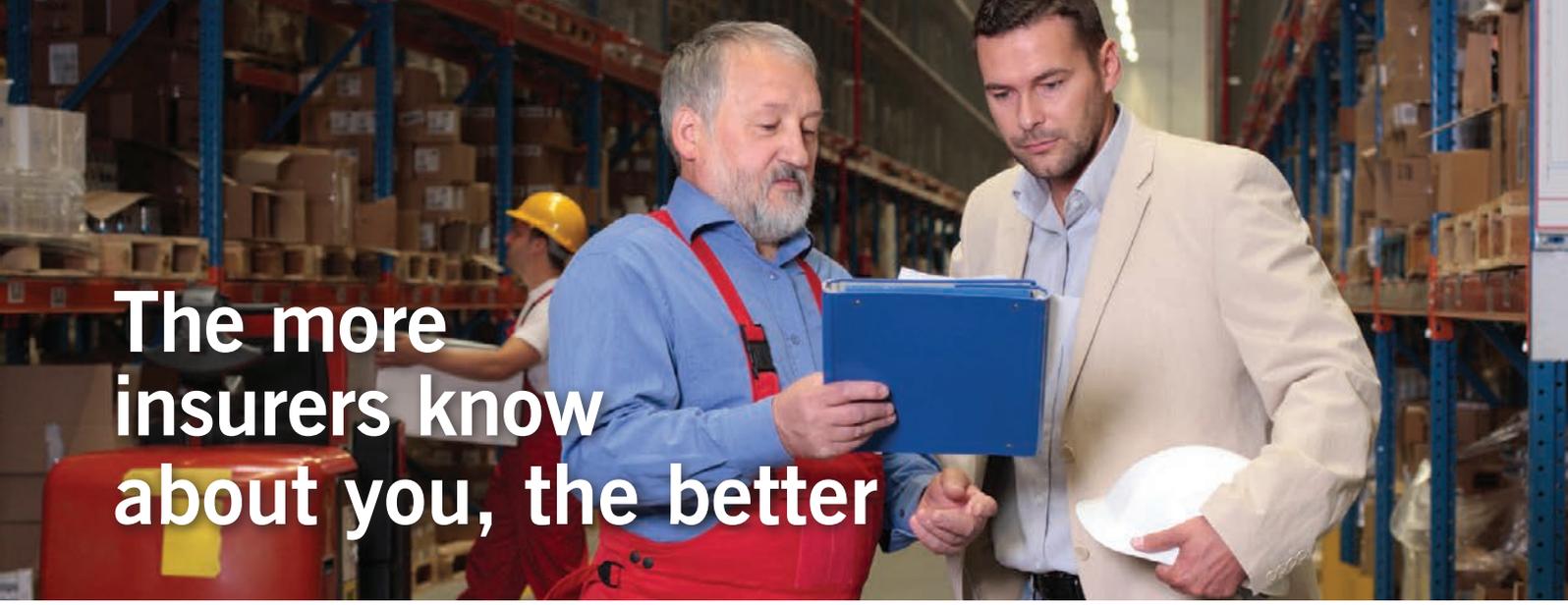
Loose material that could blow about and cause injury or damage during extreme winds should be cleared. How flood-prone is your premises? Do you know the location of your nearest safe high ground, and the best ways to get there?

Of course, thinking in advance of how to make your business safe should lead you to considering what you would do if the worst did happen. Because when disaster strikes, your best protection is going to be insurance.

What would happen if you lose your business premises or your work equipment? Or you couldn't access your premises because of flood or fire hazards?

It's our job to help you to understand the hazards and protect against the obvious and not-so-obvious consequences.

Every year Australian business-owners learn the value of insurance when nature reaches out and destroys their livelihood. So talk to us now to make sure you're fully covered when the summer weather turns ugly.



The more insurers know about you, the better

There's nothing like competition to keep prices low and service standards as high as possible. That's as true for the insurance industry as it is for, say, supermarkets.

But unlike the duopoly that dominates this country's supermarket industry, or the three companies that dominate the car industry, insurance in Australia has many, many companies and brands operating in it – more than 100. The major insurers compete in many different sectors of the risk market, while others are specialists with a limited number of areas.

The more competitors there are in any market, the tougher the competition will be. And that's certainly the case in Australia, which is often said to be the world's toughest insurance market.

While many people believe insurance companies must be staid and conservative organisations, they are in fact dynamic and innovative places to work. They have to be, because margins are kept tight to ensure they're in line with the market.

So why is it that one insurance company's policy may cost more than the policy being offered by another insurer? Is this just a case of one undercutting the market to gain more revenue, or is the more expensive policy also much more suited to your needs? Do you have the time and knowledge to find out?

In recent years technology has made it possible for insurers to stay close in price by measuring risks much more accurately. That has brought benefits and new challenges into the insurance market.

For example, an insurance company may quote more than the market average for business that they know from their data contains significant risks. Conversely, they may charge far less for a company's business because they know its management maintains excellent safety standards, is risk-averse and has high quality premises.

The thing that makes this distinction possible is the data insurers collect from you before they make their decisions. To remain profitable, they will carefully calculate the risks they are invited to cover. It's a fine line. Good business means fewer claims and better returns. Too many losses, and their loss ratios will soar as their revenue plunges.

They don't want to lose money on businesses that are more likely than other similar businesses to suffer losses. So they want a lot more information on your business than they did just a few years ago. The more they know and understand about your business, your risks and the measures you take to minimise them, the better able they are to accurately measure what your premium should be.

If your business is a high-risk, "she'll be right" kind of outfit, the price insurers quote will be higher than the average – because frankly you're more likely to suffer a loss than a similar business whose managers work to minimise the risks they face.

To ensure you can present the best case possible to the insurance company, you need expert advice and qualified representation, and that's where we come in. As your insurance broker we work with you to understand your business, the problems you may face and the measures you take to deal with them.

We can also advise you on things you can do to eliminate risks you shouldn't have or don't need and minimise those risks that are part and parcel of what you do. We know the range of policies that will ensure your company can continue to grow securely.

We work on your behalf to negotiate the best insurance deal possible, and we do it with one eye on how well individual insurers respond to claims.

Because when things do go wrong, that claim is the second time you're going to be thankful you have a broker.



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