

WHEN YOUR BUSINESS COMES TO A HALT

The owner of a small shopfront business in the suburbs of Newcastle was distraught when newspaper reporters spoke to him in the wake of the floods and storms in early June. "We have no chance of starting up again," he said. "We've lost all our stock and our machinery is ruined."

What he had forgotten was a conversation with his insurance broker some months previously, when he had reluctantly agreed to the brokers' insistence that he should have business interruption insurance.

Today the business is getting back on its feet, with new equipment, a refurbished building and a future full of renewed hope. And while he was waiting for the equipment to arrive, his insurance company was paying him what he would have earned had he still been open for business. That meant he could afford to keep his skilled staff on – and to sleep easy at night.

Business interruption insurance is designed to protect against a loss of future earnings. In the event of a claim, a method of measuring that loss of earnings must be applied. Loss of future earnings is an intangible and often hypothetical loss which is difficult to quantify.

Business interruption cover is often incorporated into industrial special risks (ISR) policies, and the wording of the clauses will vary from policy to policy. That's why it's important for us to understand your business and its risks. Selection of the right policy with the right provisions is vital.

An ISR policy will generally contain a "material loss or damage" section and a "consequential loss" section. Standard items covered under consequential loss include gross profit, professional fees, payroll and increase in cost of working not otherwise recoverable.

Generally, in order for cover to be provided under a business

interruption provision, two basic requirements must be satisfied:

- The insured must sustain a direct physical loss to the property as a result of an insured event; and
- There must be an interruption to the insured's business as a result of that direct physical loss.

Claims experts say the most difficult business interruption claims involve identifying the cause or causes of the loss and then determining what loss is attributable to each relevant cause. Again, that's where we can be of assistance.

The requirement that business interruption losses be a consequence of damage to the insured's property can limit the scope of cover.

Insurers recognise that interruption doesn't just arise from a crisis in the policyholder's own business – it can also come from their suppliers, or from events outside the policyholder's control.

There are extensions available for business interruption policies that allow cover for such risks. Suppliers' and customers' extensions (contingent business interruption) cover the risk of a reduction in turnover triggered by an event that impacts on a supplier of the goods or equipment essential to the insured business.

A "loss of access" extension – which covers material damage to an adjacent property – can even be extended to cover "loss of attraction".

This clause comes into play if the policyholder's business suffers material damage which has the knock-on effect of triggering a reduction in turnover.

Talk to us about business interruption. It's a very valuable policy, because it "holds everything together" while other policies are "putting things back together again".

AVIAN FLU WHAT IT MEANS FOR YOU

The threat of so-called bird flu or avian flu may no longer be filling the pages of the world's newspapers, but the threat of a pandemic hasn't passed.

This year, nearly 60 cases of the H5N1 virus have so far been reported in Egypt, Nigeria, China, Indonesia, Cambodia, Vietnam and Laos.

The virus had claimed 34 lives until the end of July, taking the number of reported deaths since avian flu was first identified in 2003 to 192.

Currently, the H5N1 virus is running at a mortality rate of 60%, with the World Health Organisation's six-phase alert system at "phase 3", meaning the virus is infecting humans but there is no or very little human to human transmission.

The Federal Government has done its own calculations on the consequences of an outbreak. Should the virus evolve to allow transmission between humans – the World Health Organisation says this could be more a matter of "when" than "if" – and it reached Australia, avian flu could kill 13,000 Australians in the first six to eight weeks.

The Federal Government is believed to have stockpiled enough vaccine to treat nearly half the population.

Nevertheless, the nation's hospitals would be crowded, taking in 58,000 hospitalisations and 2.6 million outpatient visits. Work absenteeism could be up to 50%.

With such dire social and economic consequences, insurers are moving to limit their liability. Munich Re cut infectious diseases from business interruption policies last year, with insurers soon following its lead.

Munich Re says removing infectious disease from business interruption makes economic sense, even if the ramifications for policyholders seem unjust.

The industry regulator, the Australian Prudential Regulation Authority (APRA), is also preparing for an outbreak. Earlier this year it completed a "stress test" of businesses to gauge preparedness in the industry. It found most were reasonably prepared for an outbreak of avian flu.



The regulator also recently revealed it may suspend or waive rules to assist companies trying to make their way through a pandemic. APRA's role as a supervisor would be withdrawn and in its place a stronger focus on monitoring companies' operational "health" would be implemented.

APRA General Manager David Lewis likened the impact of avian flu to a neutron bomb, in that the "buildings would be left standing but there would be no one left in them".

Of the lines of insurance that would be under the most stress, APRA identified five main policies: life, business interruption, workers' compensation, disability and unemployment, and consumer credit.

All would experience claim surges, particularly consumer credit which would be exacerbated by the effects of unemployment.

Despite the complacency of ordinary Australians, there's a lot of preparation going on behind the scenes. If you would like to discuss the possible impacts on your business – and what can be done to secure cover – give us a call.

CLIMATE CHANGE – A VERY HOT TOPIC

The question of climate change tends to revolve around extreme weather scenarios such as flooding, windstorms like hurricanes and cyclones, rising temperatures and extended droughts.

While governments and the wider business community have only recently recognised and begun responding to climate change, the insurance industry has been quietly working in the background on this threat for the past two decades.

While the debate still rages on whether climate change is a perfectly normal phenomenon or a man-made trend, the insurance industry has to work on the facts as they present themselves. Man-made or not, insurers know they are seeing more and more mega-catastrophes due to windstorm and flood impacting on their bottom lines.

From the biggest international insurance and broking firms to smaller companies, the entire insurance industry understands the extent of the threat of climate change and has been working on ways to meet the challenge.

How you meet a challenge as immense as climate change is the big question. Australia is particularly susceptible to bushfire, floods and windstorms, and the industry is only too well aware that the story is much the same around the world.

In developed countries like Australia and regions like North America and Western Europe, the scale of damage is already immense. The British floods of the past few months will have cost insurance companies more than £7 billion (\$15.2 billion) by the time all the claims are settled. In the United States – which is braced for an intense hurricane season – Hurricane Katrina cost insurers more than \$US40.6 billion (\$47.1 billion) in 2005.

So while the link between insurance and climate change may not be immediately clear, the impact on insurance – and its future ability to cover people and businesses against large-scale natural disasters – is very real.

And no wonder. The Australian Business Roundtable on Climate Change predicts that for every 25% increase in wind speed beyond 50 knots (92kmh), insured losses increase by a staggering 650%.

The roundtable, which includes representatives from local insurer IAG and global reinsurer Swiss Re, also forecasts for every one-degree rise in surface temperatures, the number of people exposed to flooding doubles.



Exacerbating the problem is the fact that more and more people are moving into warmer coastal settlements in the northeast of New South Wales and along much of the Queensland coast. So as the severity – and possibly the number – of cyclones is feared to rise, populations in the most cyclone-prone areas are increasing.

The United Nations Intergovernmental Panel on Climate Change released a report earlier this year stating that climate change is already having a ruinous effect on the earth's ecosystems, including a rise in the number of glacial lakes, an increase in river currents and changing seasonal patterns.

Scientists are predicting these changing weather features could lead to fluctuations in normal weather events, longer droughts, less rain and more violent storms.

All would have a big impact on Australia, socially and economically. For example, Munich Re, the world's second largest reinsurer, has calculated that a Category 3 cyclone striking Brisbane would cause insured losses of \$US6 billion (\$6.9 billion).

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The cost in rebuilding infrastructure and other uninsured services and facilities would probably be more.

As an industry that deals in risk, the insurance industry believes that any phenomenon that could inflame the frequency and severity of weather events must be taken seriously.

For policyholders, the consequences of climate change could be drastic.

If climate change does increase the risk of flooding for example, many houses in low-lying areas or along coastal regions will experience rises in their premiums as insurers prepare for the increased risk of a storm taking place.

In a worst-case scenario, insurance could be pulled from certain regions if the insurer deems the risk of providing cover is simply

too great. This has already begun to happen in hurricane-prone areas in the US along the south and southwest coasts.

For years insurance brokers and insurers have been calling on governments and businesses to start planning for climate change, including the introduction of market mechanisms such as carbon trading schemes.

More esoteric is the industry's support of green technologies, and the introduction of new policies designed to protect them. Special insurance policies for environmentally friendly technologies are now available; some motor vehicle insurers even offer discounts for customers owning hybrid vehicles.

Insurers are also taking practical steps to reduce their "carbon footprint" – the amount of carbon dioxide released into the atmosphere each year – by installing energy efficient equipment and "offsetting" emissions through the purchase of carbon credits.

SAY THAT AGAIN?

The answers on claims forms sometimes tell us more than we wanted to know...

When people fill out an insurance claim form following a vehicle accident, they're usually anxious to ensure the person dealing with their claim is quite clear about what happened. The result is often a misplacing of tenses, a jumble of facts and recollections, and a smattering of excuses that give the world some very funny lines. Here's some examples, drawn from local and overseas insurance claims files:

- "Going to work at 7am this morning I drove out of my drive straight into a bus, which was five minutes early."
- "The accident happened because I had one eye on the lorry in front, one eye on the pedestrian and the other on the car behind."
- "I started to slow down but the traffic was more stationary than I thought."
- "I pulled into a lay-by with smoke coming from under the hood. I realised the car was on fire so took my dog and smothered it with a blanket."
- "Q: Could either driver have done anything to avoid the accident?
A: Travelled by bus?"
- "On approach to the traffic lights the car in front suddenly broke."
- "I didn't think the speed limit applied after midnight."
- "I knew the dog was possessive about the car but I would not have asked her to drive it if I had thought there was any risk."
- "Windscreen broken. Cause unknown. Probably voodoo."

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