AIS INSURANCE BROKERS

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THE AIS INSURANCE BROKERS NEWSLETTER

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Underinsure at your peril

Underinsurance has been a problem undermining Australia's economy for years. It's driven by two key factors – lack of knowledge and affordability.

Often lacking information to properly measure the value of what they own or the risks they face in business, people can inadvertently buy insurance at a level that considerably under-values their assets or fails to provide proper protection.

That's where our expertise comes in – because estimating values and risks is a task that needs advice and guidance.

Right now premiums in some classes of business are rising as insurers recoup the losses of the past few years and pay their own higher premiums to reinsurers (insurers for insurance companies). Insurance companies are major investors in Australian and international stocks and bonds, and the generally "flat" economy we're all experiencing in business has forced the insurers to raise their prices to meet the shortfall in investment earnings.

While that situation is likely to last only as long as the economy is under-performing, the temptation for some businesses facing higher premiums is to simply underinsure. There are a number of sensible strategies we can talk to you about to minimise your premium while maintaining adequate coverage. But deliberately underinsuring against the risks you face isn't a strategy we would easily recommend.

One positive trend to emerge from 2011's summer of natural catastrophes was a heightened awareness of the underinsurance issue. Many people found their property, home and contents or strata policy didn't cover them adequately or, in some cases, at all.

Many businesses – mainly SMEs with limited coverage – also suffered. We're here to make sure this doesn't happen to you or your business, and you should feel free to call us any time to discuss any concerns you may have about the risks around you.

Which leads us to the issue of affordability. While the spate of natural disasters in 2011 has been blamed for recent increases in insurance premiums, the reality is that premiums in many classes of insurance – but particularly in property – were too low for too long.

The Insurance Council of Australia has linked the rising cost of insurance with high levels of underinsurance. States and territory governments could assist by removing or at least reducing the level of taxes they impose on your premiums. You should only have to pay for the risks you are protecting your company against, plus GST. State stamp duty just adds to the affordability issue.

Studies have shown that underinsurance is more than just a problem for businesses wanting to rebuild after a catastrophe. It's an issue that costs taxpayers, decreases investment and is a drag on the greater economy.

It appears the problem is particularly serious with plant and equipment, with buildings better covered because they are often regarded as more important than other assets. Many businesses are also underinsured for stock and equipment as well as business interruption.

Taking out an insurance policy is an important realisation that the universe can and often does deal a bad hand. But failing to properly insure against loss and liability undermines the entire reason for insurance and frequently leads to bad outcomes – for the insured, employees and the wider economy.

Fidelity: trust and betrayal

We've all heard the stories of companies ruined by dishonest employees who were regarded as totally trustworthy.

But whether you're a major company or a small business, theft by an employee you trusted can wreck your faith in people and destroy your business.

At the top end of employee theft we have the case of Leighton finance manager Damian O'Carrigan, who was sent to jail recently for 15 years for stealing more than $20 million from his employer.

The misappropriated wealth was spent on such things as motorcycles, fish breeding, dogs, boats, horses and women.

During his trial, it emerged O'Carrigan created a dummy company to invoice Leighton for fake projects and maintained the elaborate charade for more than a decade.

The case is just the most recent highlighting the extent of corporate fraud in Australia.

Separate frauds committed against Hastie Group, which collapsed partly due to internal fraud, and transport company Viking Group recently came to light and in February this year, Carolyn Hanigan was sentenced to 37 months in jail for stealing $360,000 from a signwriting business where she had worked for 11 years.

The University of New South Wales recently described corporate fraud in Australia as an "epidemic" costing the local economy $5.8 billion every year.

Light-fingered employees exist in companies of all sizes. We should all regard the threat of theft by an

employee as an unfortunate reality of business life.

From embezzlement to robbery, forgery to counterfeiting and computer fraud to wire transfers, fraud is indiscriminate.

KPMG, which released its latest corporate fraud survey in February, found while most fraud occurred at companies with at least 1000 employees, more than 30% of businesses with between 100 and 500 staff had uncovered some kind of fraud.

These findings assume most fraud is being detected, which KPMG showed is not the case. Only 39% of respondents to the survey believed more than 80% of internal fraud was being detected while 20% of businesses believed only one in five frauds were being uncovered.

While detecting fraud was difficult, recovering stolen funds was nearly impossible. Only in 8% of fraud cases was the full amount recovered, while nearly half of companies (43%) recovered nothing following a fraud.

The reasons why employees turn to crime haven't changed: financial pressure – often as a result of gambling – and opportunity are two of the biggest reasons.

But despite the threat of being ruined by employees, many companies haven't changed their internal controls for years, allowing opportunity to flourish.

According to the KPMG survey, 47% of businesses believe a major fraud occurred due to deficient internal controls, and individuals acting alone committed 71% of all fraud. Companies with strong internal controls consistently experience less fraud, and businesses can implement a range of measures to reduce the risk of fraud. These include creating a policy manual and code of conduct, implementing authorisation controls, a whistle-blower policy and a strict separation of duties.

Strong supervisory processes and regular accounting reconciliations are essential.

Despite rigorous internal controls, fraud can still strike, which is where fidelity insurance forms an important part of your company's defence.

Protecting organisations from a loss of money, inventory or securities, fidelity insurance covers gaps or exclusions found in most basic business and property insurance policies.

Talk to us about how fidelity insurance can help protect you from light-fingered individuals.

Why using us makes perfect sense

Buying a product you never really want to have to use has always made insurance a bit of a paradox to the owners of SME businesses.

Even minor, unexpected costs can prove disastrous for small operators, and unfortunately insurance is sometimes stranded on the list of things to do "once things settle down".

As insurance brokers, that's an attitude we'll always work very hard to overcome, because we've all too often seen the consequences of putting essential insurance cover into the "later" file.

New research by insurer Vero shows SME business confidence remains flat, despite cuts to interest rates, while inflation, unemployment and retail spending "reflect uncertainty and caution among SMEs".

This has locked many smaller businesses into a "wait and see" mindset that can apply to everything from growth plans to insurance.

The 2013 Vero SME Insurance Index shows while trust of insurers and brokers is high, many SMEs have taken a far more lackadaisical attitude to insurance.

According to the survey, more than a third of SME businesses fall into the "grudging purchaser" category that sees insurance as a legal requirement rather than a business necessity.

This group, one of three identified by Vero, comprises about 36% of SMEs.

While seemingly at opposite ends of the spectrum, the "grudging purchaser", the "thoughtful purchaser" and the "outsourcer" all share similar traits.

Only the thoughtful and outsourcing buyer place a value on insurance, although their approaches when buying differ greatly.

Where the thoughtful SME owner undertakes extensive research and tends to purchase directly, the outsourcer knows insurance is important but is time-poor – and that's why he or she will use a specialist, an insurance broker, to arrange cover on their behalf.

It makes sense. The world is turning more and more to experts who can get the job done better and faster.

The index also sheds light on the gulf separating those who use brokers and those who don't.

The key belief influencing SMEs to purchase insurance directly is the misguided perception that using a broker will increase costs. Nearly half of the SMEs surveyed in the Vero study that don't use a broker believed an intermediary would cost more than buying directly.

In fact, the reality of using a broker is the exact opposite, as clients in the survey testified. More than 70% of SMEs that use a broker said insurance placed through an intermediary is either the same price or cheaper than buying direct. Add to that time savings, expertise and the understanding brokers bring to insurance purchases.

Tunnelling deeper into the differences between clients and non-clients, the survey also highlighted a trend among younger and female business-owners away from brokers towards purchasing insurance directly.

Vero found that these business-owners don't intend to shun brokers; they just haven't thought of using their expertise when making an insurance purchase. They've grown up with the internet and they're used to using it to do many thing themselves.

But with insurance it's different. The products can be complex and the best product for the individual business is not usually obvious – unless you know what to look for.

We brokers live and breathe insurance, and we know which insurer has the best cover. We can usually arrange the lowest rates, too.

And when you have to make a claim, the expertise and contacts we have within the insurance companies means the job gets done faster and with far less fuss.

Our clients are who matter to us, and the Vero survey shows the value of that relationship; 72% of the SME business-owners surveyed have never changed their broker.

In short, the survey has brought into the sharp focus the conundrum of many SMEs. Those who don't have an insurance broker doubt they really need one, but once they have a broker those perceptions change dramatically.

We're always available to help you with any coverage questions you may have. Give us a call anytime.

Marvellous marine

Humans have a track record of risk aversion. It's a hard-wired genetic trait that has ensured our long-term survival and one forming the core of every insurance transaction.

One of the least understood disciplines of insurance – particularly for those not directly involved as a provider or a purchaser – is marine, a business as old as insurance itself and as up-to-date as today.

The first recorded insurance purchases involved covering the transport of goods over water. Shipping laid the path of prosperity for many early societies, and it was here that thrifty traders found ways to hedge their bets in the event of a loss.

Today marine insurance broadly covers three main areas – the ships themselves, the cargo, and liability issues arising from any number of scenarios including damage to other ships, crew injuries or death, pollution, war risks and terrorism.

Its major subset in Australia is cargo insurance, covering the movement of goods by whatever means is best suited to the task – from trucks and trains to planes and couriers.

While insurance can be traced back to the Babylonians around 4000 years ago, the modern system of marine insurance – indeed insurance in general – began in the 1680s in a small coffee house on Tower Street, London. Edward Lloyd's coffee shop became a favoured haunt for those in the shipping game, from shipowners to merchants and captains, and later became a centre of negotiations over ship and cargo insurance. Lloyd's of London never lost its place as the leading centre for marine cover.

While marine insurers tend to cover the damage to ships, either whole or partial, and the loss or damage of cargo, they are reticent to cover liabilities, which led to the creation of Protection and Indemnity (P&I) clubs.

Heading into the 19th century, marine insurance typically only covered 75% of the insured's liabilities towards third parties. Wishing to be fully insured, ship owners formed mutual clubs to cover the remaining 25%, where members would pay not a premium but a "call" to cover future payouts. P&I clubs grew in importance when injured sailors began seeking damages from their employers and a boom in passenger travel in the mid 19th century exposed gaps in insurance cover.

More than 90% of the world's transport vessels are members of a P&I club.

Besides the unique blend of risks facing ship owners, marine's complexity lies in the nature of global transport.

Global commercial vessels are usually subject to what is known as "Admiralty Law", first introduced in England in the 18th century to address insurance questions regarding international trade by sea. Put simply, Admiralty Courts, where they exist, assume that wherever the ship is currently located, the laws of that country are in effect.

That can lead to complications as local decisions may clash with the terms of a marine insurance contract, particularly when it comes to liability.

Add to this the growing number and size of cargo ships – the largest container ship yet built, the Triple-E class being built by the Maersk Line, will carry 18,000 containers – and you get some idea of the complexities of marine insurance.

The contents of each of those containers might be covered by several insurers, and the task of unravelling who is to pay the claim in the event of an accident or fire is massive. But you can be sure those claims will be paid.

We can advise you on the best ways to insure your property and goods as they move across town, the country or the world. Just give us a call.

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