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THE AIS INSURANCE BROKERS NEWSLETTER

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Brokers protect you against higher premiums

The cycle of the insurance seasons – years of lower premiums followed by the hard whack of steep price rises – was once a steady feature of insurance which only differed in length, depth and height.

After years of lower premiums, insurers have forecast – and their reinsurers have demanded – a return to "harder" pricing to recoup the losses of the past couple of years.

While pricing has begun to swing back in the insurers' favour after years of what's known as a "soft" insurance market, premium rises are far from uniform.

To some extent we insurance brokers have been the only people resisting a determined push by insurers to pass on the higher costs of doing business.

In this environment, our advice and pricing power is more important than ever.

Australian insurers recorded strong premium growth in the past year, with premiums across liability, property and motor lines all rising strongly.

After rising by an average of 10.1% every year for the past five years, premiums in property lines soared 25.2% last year – the third-fastest rate in the Asia-Pacific region and well above the global average of 6.7%.

Motor premiums in Australia grew 18.3% last year, beating the five-year average of 12% and last year's global average of 5.6%.

Growth in liability premiums was more than double the five-year average at 12.8%.

Professional indemnity and directors' and officers' insurance are also set to rise over the coming years. According to Tim Andrews, a principal with leading actuarial and insurance consultant Finity, low premiums charged across these lines are "unsustainable".

Low returns from under-pricing means insurers have not made sufficient profits to cover their cost of capital.

"In my view rates are probably not adequate on average to cover the full claims cycle," he said. "We've had some poor years but it could potentially have been much worse."

It's a view that is shared by many of the leading Australian insurers, with several blaming falling investment income as the catalyst for raising rates.

The global financial crisis and natural disaster losses have also given insurers renewed impetus to raise rates.

However, competition in the market, largely fostered by the advice and buying power of brokers, has largely kept across-the-board rate hikes at bay. The onus is also on the customer to minimise risk exposures as much as possible.

Rate rises on commercial insurance renewals at the end of the latest financial year were patchy as a more discerning risk policy approach was implemented by insurers.

While some companies are still raising premiums, others are actively chasing market share with lures of cheaper rates.

In a market as confused and confusing as this, you need the expertise and negotiating ability of insurance professionals to stay out in front and secure about the future. So give us a call and we'll be happy to help you mimimise your risks – and your premiums.

Insurance fit for a king

The old adage that insurance should never be a "one size fits all" purchase is more true than ever for the growing ranks of wealthy Australians. And in the case of these "high net worth" individuals, the most appropriate way to protect their property is through specialised insurance cover. For Australia's estimated 168,000 high net worth individuals – defined by the World Wealth Report as those holding at least $US1 million in funds to invest – taking out a standard home and contents policy is unlikely to provide adequate peace of mind.

And that's where the knowledge and expertise of an insurance broker comes into play.

These days, high net worth individuals are more likely to own homes that reflect their wealth. At the same time, rocketing property values in the past 10 years have pushed many more people into the "very expensive home" bracket. There's a lot more high net worth people around than there used to be.

Australian policies tailored for this segment of the population have expanded beyond the walls of the home to cover the other appendages of the wealthy lifestyle.

They now offer a wide range of options, including home and contents for primary, secondary and overseas residences, landlord property, high performance and collector vehicles, pleasurecraft, wine, artworks, jewellery, antiques and collectables, and rural properties.

Cover is also available for such additional risks as kidnap and ransom, pets, credit card fraud, and even aviation.

In recent years the high net worth insurance sector has undergone something of an upheaval, and our clients have been the beneficiaries.

Where once a few dominant insurers enjoyed the lion's share of this niche market, new entrants and fresh policy approaches have given insurance brokers the tools to negotiate even more tailored solutions for their clients.

High net worth individuals have become hot commodities for insurance companies – and harder people to satisfy. One major global insurer said this year that the high net worth sector was a key driver of its growth, as it has effectively positioned its insurance products as "estate planning tools for high net worth individuals".

In the UK – which is sometimes a couple of years ahead of new trends emerging in the Australian insurance market – the number of providers and products concentrating on coverage of high net worth individuals' property is multiplying rapidly.

While standard coverage for high net worth clients has improved greatly, increasing competition in this niche means more opportunity to build policies that meet particular needs.

And we brokers recognise in turn that people with the wealth to build expensive homes aren't looking for standard insurance solutions – they want their policies tailored to their particular lifestyle.

Differentiation in product cover is essential in determining which insurance product is best.

And to ensure that, our knowledge of what the market has to offer is essential. That's one reason why the major insurers in the high net worth property market deal exclusively through brokers.

For more information on high net worth policies to keep you fully protected, give us a call.

Defects don't need to mean disaster

Regardless of the controls a company imposes to ensure the goods it's selling are the best possible, quality control isn't always enough. The need to recall products from sale can happen at any time for a bewildering array of reasons.

The ensuing legal and business costs can be ruinous. And it's not just the manufacturer who's in the firing line; suppliers are equally liable to pay legal and damage expenses.

Under Australian Consumer Law, any company which sells, supplies or delivers goods, including repairs or services, could face claims from products that cause injury, death or damage.

While sometimes considered an expensive luxury, product liability insurance has never been more crucial.

Product recalls are now occurring on a daily basis. In August this year, the Australian Competition and Consumer Commission listed 35 recalls affecting 26 companies, including such powerful names as Big W, Target, Fisher and Paykel, Mercedes, Ford, Toyota, Kawasaki and Ducati.

Holden was forced to recall 50,000 imported vehicles due to the potential of brake failure. Only a week before the Holden announcement, faulty welding on towbars led Ford Australia to recall more than 16,000 Ranger utilities.

Meanwhile, hearing device maker Cochlear saw its annual profit fall 68% from $180 million to $56.8 million after recalling its faulty Nucleus CI500 product.

While large corporations can weather such losses, smaller businesses often can't. Recent research shows a large number of Australian businesses are ill-prepared to survive a product recall. A study by Melbourne University found a quarter of Australian businesses would not survive a recall due to deficiencies in their business model, including a lack of adequate insurance protection.

The trend in rising product liability costs is reflected in recent data released by the industry regulator. In the 12 months to June this year, claims from so-called "long-tail" classes of insurance cost $7.1 billion – nearly $2 billion higher than the previous year.

Claims from product and public liability in the most recent financial year were $1.85 billion – a 54% increase since the year before.

Suppliers can reduce their exposure to product liability actions in a number of ways. These include:

- regular reviews of product designs and production
- implementing and reviewing quality assurance procedures
- product testing and clear user instructions.

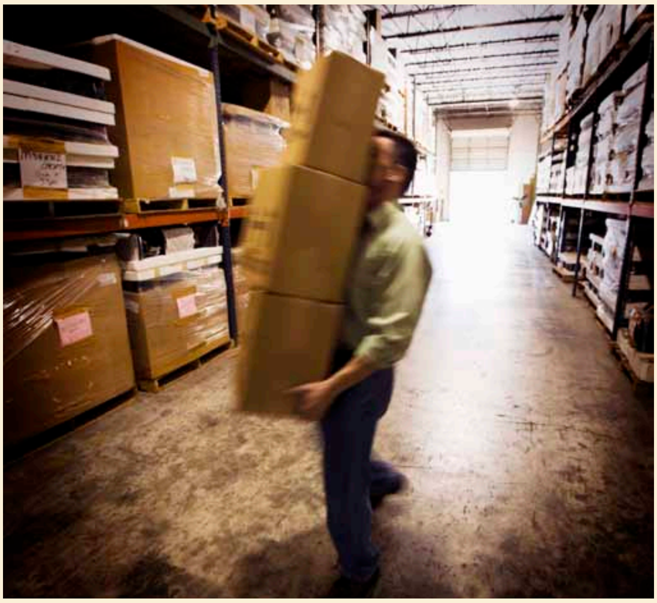
Product liability insurance provides an extra layer of protection against the costs of a recall.

Product liability insurance covers the whole process, from product design, manufacturing and instructional defects – including inadequate labelling, instructions or warnings.

Product liability insurance policies can be tailored for a particular industry or business, from those operating as a sole proprietor to larger corporate entities. Additional coverage options include product guarantees and tampering.

If your business is part of the very wide world that has risks associated with product liability, give us a call. We'll help you understand the risks and what can be done to protect you from the consequences of something going wrong.

Injury rates are down, but we can't relax



First, the good news for employers: After years of federal and state government programs aimed at stemming workplace injuries, the tide appears to be turning.

While Safe Work Australia estimates the annual cost of work injuries at a staggering $57.5 billion or 5.9% of Australia's gross domestic product, national work injury rates are, in fact, declining.

According to figures released last year by the National Safety Authority, fatalities at work are down 10%, injuries in five of eight disease categories have fallen and the total work-related injury rate has dropped from 64 to 53 injuries per 1000 people employed in the four years since 2005.

And now, the not-so-good news: Despite the happy statistics, there's still a great deal more to do before we can truly say we've turned the corner and can move ahead to a safer and healthier workplace.

For example, casual workers recorded a work-related injury rate 50% higher than non-casual workers in 2009/10. A thorough workplace safety and insurance program remains as crucial as ever for keeping workers in work and out of hospital.

While a fall in overall work-related injuries since 2005/06 was driven by a decline in injuries among males, men continue to represent the bulk of workplace-related claims.

In the 2009/10 financial year, men accounted for 56% of those who experienced a work-related injury.

Workplace injury rates varied across age groups. The highest rates recorded were among men aged 45 to 54, at 66 per 1000 people employed, while men who had turned 55 were in the lowest risk group. In the four years between 2005 and 2009, injuries among young men aged between 15 and 24 experienced the most marked fall, from 95 to 59 per 1000 workers.

Women experienced the greatest risk of injury once they turned 45 (59 per 1000).

As expected, blue-collar workers including labourers, machinery operators, drivers, technicians and trade workers recorded the highest injury rates.

White-collar workers like clerical, administrative workers, professionals and managers were – logically – the safest.

While injury trends are apparently in retreat, time spent off work has actually risen. Time lost due to serious claims increased from an average of 3.6 to 4 weeks between 2003/04 and 2007/08. At the same time, average payments for serious claims rose from $5500 to $6900.

Most alarmingly, more than 80% of those injured had received formal occupational health and safety training prior to the injury, up from only 58% in 2005/06.

A well-articulated insurance policy is essential for dealing with the repercussions of an injury, but it's every bit as important to have a work culture and safety programs that aim to make the workplace as safe as it can be.

We can help you manage your OHS risks in the same way we draw up an insurance program. Experience, expertise and a willingness to understand your company's unique exposures are what makes us part of the total workplace safety program. A safer working environment and culture means lower premiums, and that's what we're all aiming for.

While it may seem obvious, the safety burden on employers is immense, because they have to approach the safety question from so many angles.

Onsite health services can also provide immediate treatment and management of injuries and early, co-ordinated return to work programs. But make your first safety stop with us, so we can discuss your exposures and the avoidance and insurance solutions.

A.I.S. Insurance Brokers Pty Ltd

AIS INSURANCE BROKERS

Melbourne
137 Moray Street
South Melbourne 3205

PO Box 7660 Melbourne 3004

Telephone: 03 8699 8888
Facsimile: 03 8699 8899

e-mail inquiries: insure@aisinsurance.com.au
website: www.aisinsurance.com.au