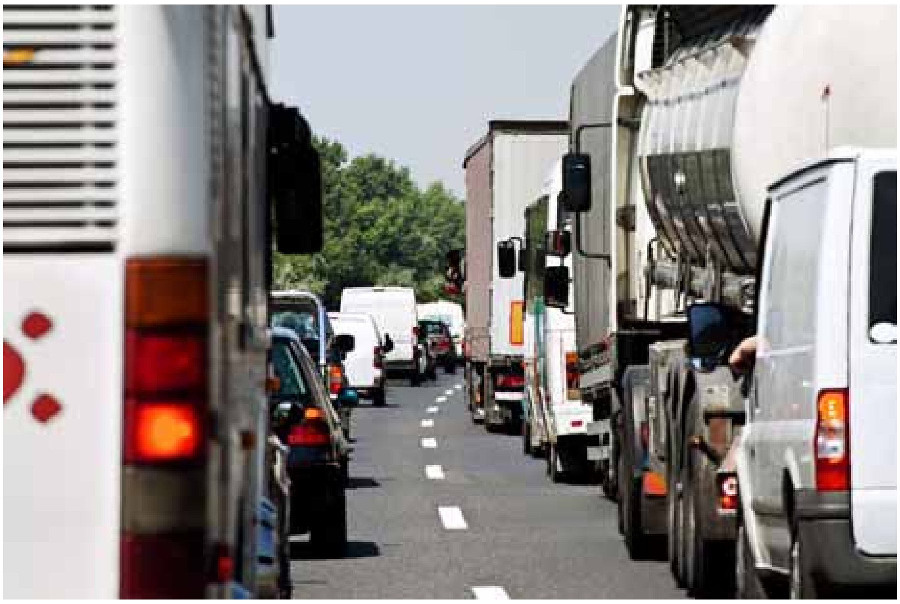
AIS Liaison
The AIS Insurance Brokers Newsletter
SUMMER 2014

Managing the ultimate mobile business aid



Fleet insurance helps keep your fleet moving safely

Companies large and small can do so much these days with mobile devices like phones, tablets and laptop computers, but the motor vehicle – car, truck or van – remains the ultimate mobile business aid.

Quick and easy deliveries, the need for face-to-face meetings and thousands of other tasks that make up our daily jobs force us to rely extensively on the fleet vehicle.

But unlike the electronic devices that underpin our mobile life, damage to our vehicles can be surprisingly expensive.

Anyone who has ever been involved in a car park accident knows the significant financial damage that just a small brush with another vehicle or solid object can cause. The stakes get even higher on the open road. With every new vehicle comes increased risk – both financial and human – to your business.

It's important that those threats are both recognised and managed appropriately. Fleet insurance should be a vital consideration for any business manager with more than a handful of vehicles under their watch.

There is no set minimum number of cars that turns your car pool into an insurable "fleet". Each insurer has a different attitude and prices its fleet and single vehicle policies accordingly.

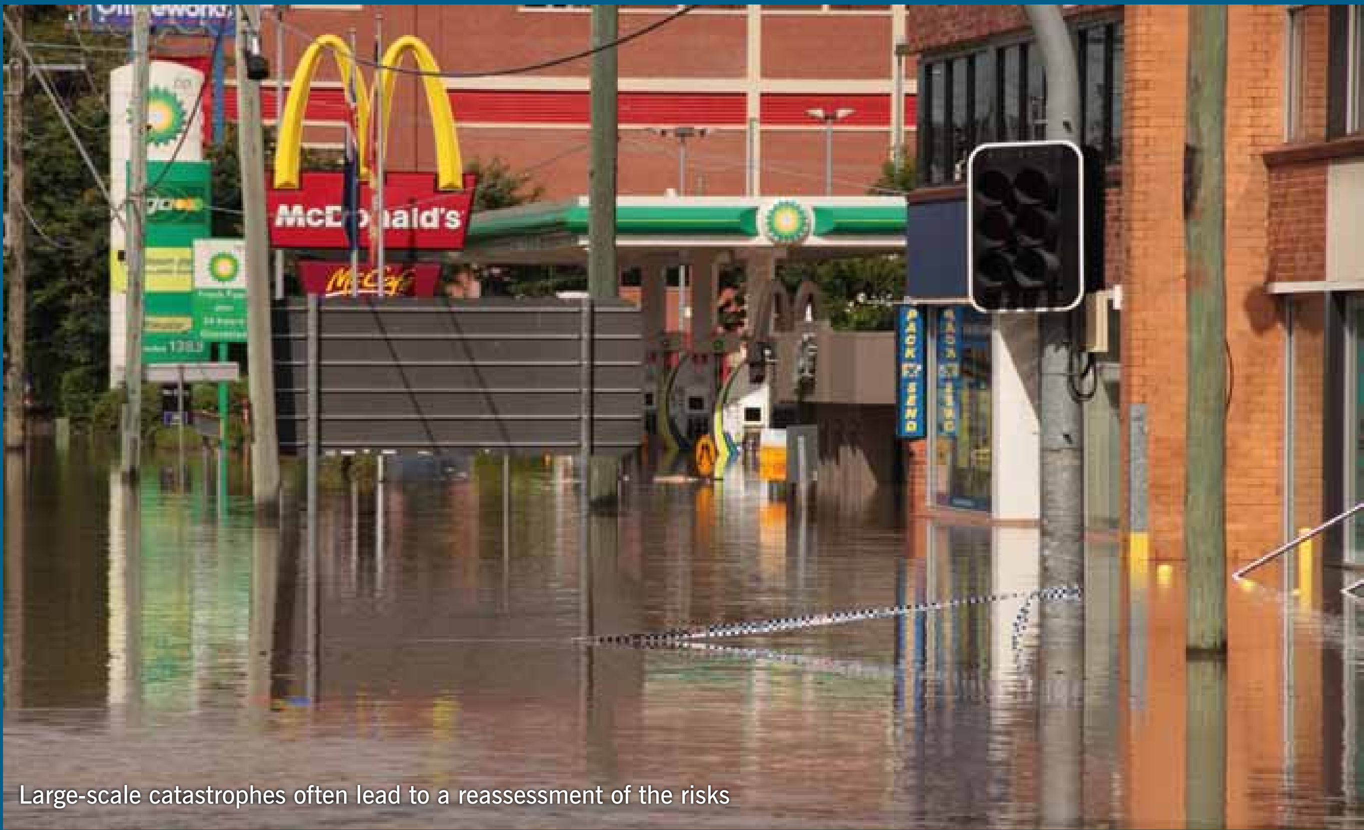
But a fleet policy begins to be more economical once there are at least six vehicles bearing the company logo. By the time you have 15 vehicles, a fleet policy is always the best way to go.

Choosing the best policy for your particular – and unique – needs is our job. This is specialised work, because there's a wide range of policy formats available. As with standard car insurance, there are plenty of options for fleet managers to consider.

Safety is a major consideration, and fleets that are operated with an emphasis on safety will be rewarded. Significant discounts are available for fleet managers with favourable claims records. So there are advantages in employing people who have the right experience and attitude for the driving task; and so is maintaining a continuous safety training regime. These can be assisted by such electronic advances as telematics, which we have mentioned previously.

Insurers also rate the fleets they insure according to the activities the vehicles are involved in. You can expect to pay different rates for insurance depending on the likely areas of operation, what the vehicle is being used for and what sort of vehicles make up the fleet.

Whatever your business, and whatever the size of the fleet, we're best placed to guide you through the available insurance options, and we'll be able to negotiate the best deal for you.



Large-scale catastrophes often lead to a reassessment of the risks

Positive signs for an easing in premiums

Just three years ago the Australian insurance industry and the global reinsurers they rely on were reeling from the impact of natural catastrophes in Australia. In 2011 they paid out more than $5.2 billion to Australian clients whose lives had been devastated by floods, bushfires, hailstorms and even a severe cyclone.

The cost of these claims had to be recovered, and the reinsurers in particular were unimpressed with the damage in the region. Remember that in 2011 the Christchurch earthquakes were continuing also, and the massive Thailand floods had inundated countless international manufacturers' factories. This region was on the nose.

It's usually the case that after a series of natural catastrophes insurers and reinsurers will raise their premiums in the affected region to help recover their losses and in recognition of their increased understanding of risk factors.

And that's what happened after 2011. The reinsurers imposed higher premiums on insurers and the insurers passed the rise on by raising their premiums, too.

The rises were, for the most past, reasonable, although as is usual with such periods, many insurers' "appetite for risk" changed and as a result we insurance brokers had to work hard with our clients to deal with the increased cost and in some cases find alternative ways to cover their risks. This included higher excesses on some risks and higher levels of risk management to minimise exposures.

Insurers are among the world's biggest investors, and the premium rises also came in a period when investment returns were a mess as the world struggled to recover from the economic mess of the global financial crisis of 2008.

Several years later, the picture is gradually changing. The global economy is still relatively flat, but the world has seen few major natural catastrophes that have impacted deeply on the reserves of insurers and reinsurers. As a result, the reinsurance sector has become a significant opportunity for large investors seeking growth in their portfolios. Large US pension funds, for example, have moved investment capital into the reinsurance market, particularly into the catastrophe classes of business.

The result was predictable. Competition has risen, new reinsurance players have entered the market and property catastrophe rates set on January 1 for the next 12 months have fallen by varying amounts. For insurers in the Asia-Pacific region, premiums for insurers have fallen by as much as 10%.

That's been good news for Australian insurance companies, which have been struggling with lower investment returns and a very competitive market keeping a lid on the sort of premium rises they might have liked to charge.

The local insurers haven't enjoyed the splurge of investor dollars their reinsurance colleagues have experienced, but recent renewals we have handled have revealed that slowly improving investments and lower reinsurance rates mean a "softer" market may be developing.

It's a bit too early to tell if this is a solid recovery – reinsurance renewals on June 30 will give us a more accurate indicator of the general state of the market – but we believe the gradual rises in premium experienced over the past few years could ease over some classes of commercial insurance.

There is definitely a much higher appetite for risk developing in may classes of insurance, so give us a call to discuss what the market influences mean for your risk portfolio over the medium term.

Keeping the decision-makers covered

The verdict in a routine New Zealand court case in 2011 continues to reverberate around the business world. But swift action by insurers who offer directors' and officers' liability (D&O) insurance has ensured it's not the nightmare it could have been.

D&O insurance covers company managers and directors against claims arising from the decisions and actions they have made as part of their job.

Policies cover their liability as individuals – what's known as Side A cover – and also the reimbursement of the insured company when it pays a third party on behalf of its managers to protect them – Side B cover.

In the New Zealand case, the creditors of a property company called Bridgecorp won an action giving them precedence over directors and managers to access defence costs under their D&O policies. The case was decided in favour of the insured parties but later defeated in an appeal court. However, the country's highest court recently reinstated the original decision.

New South Wales, the Australian Capital Territory and the Northern Territory have similar legislation to New Zealand's in this area, and as a result some clients in this country were left potentially exposed by the legal precedent.

Insurance companies reacted quickly to the issue, redrafting their policies to separate defence costs from third-party claims by shareholders and receivers, or writing stand-alone policies for defence costs.

The NSW Court of Appeal last year rejected a similar case brought by third parties, saying the insurance was specifically intended to defend the director or manager against the cost of his or her legal defence. The Australian High Court is the next stop for an appeal against that decision.

The choice of insurers offering D&O insurance is wide, which makes our services essential if you're going to find your way through the maze of conditions and exclusions.

Pitfalls can arise when the policy doesn't meet recent legal precedents like Bridgecorp, new legislation or altered regulations that can change an individual's exposure to an action. This is particularly crucial in liability areas.

Some D&O policies don't cover the legal cost of seeking advice and being represented if a government regulator or liquidator is investigating a company. But most investigations take place after the company has become insolvent, in which case it isn't likely to be able to afford to pay for the legal costs of the director or manager.

There are many more examples. So talk to us about your D&O exposures, and how we can help you to keep up with the challenges and changes happening in this vital area of liability insurance.

Directors and company officers should be covered against adverse action

Who do you think you can trust?

Employers in smaller businesses are likely to trust their employees more than the boss of a larger company. But when it comes to employee fraud, the size of the company doesn't matter – the potential damage is what counts.

The larger the company, the more formal will be its approach to its workers, checking their backgrounds before hiring them and managing and monitoring their work activities.

Employee fraud is a huge problem in larger companies, but the owners of smaller businesses shouldn't think it's something they don't have to worry about. And trust is no protection at all.

Whether they're friends or even relatives, employees handling money or goods can fall prey to temptation.

Companies without fidelity guarantee insurance can be bankrupted by employee fraud, because the chances of recovery of the stolen money or assets is usually very low.

A recent survey by KPMG based on the responses of more than 200 Australian firms found fraud is a significant economic problem. Some 53% of the respondents reported incidences of fraud in their organisations.

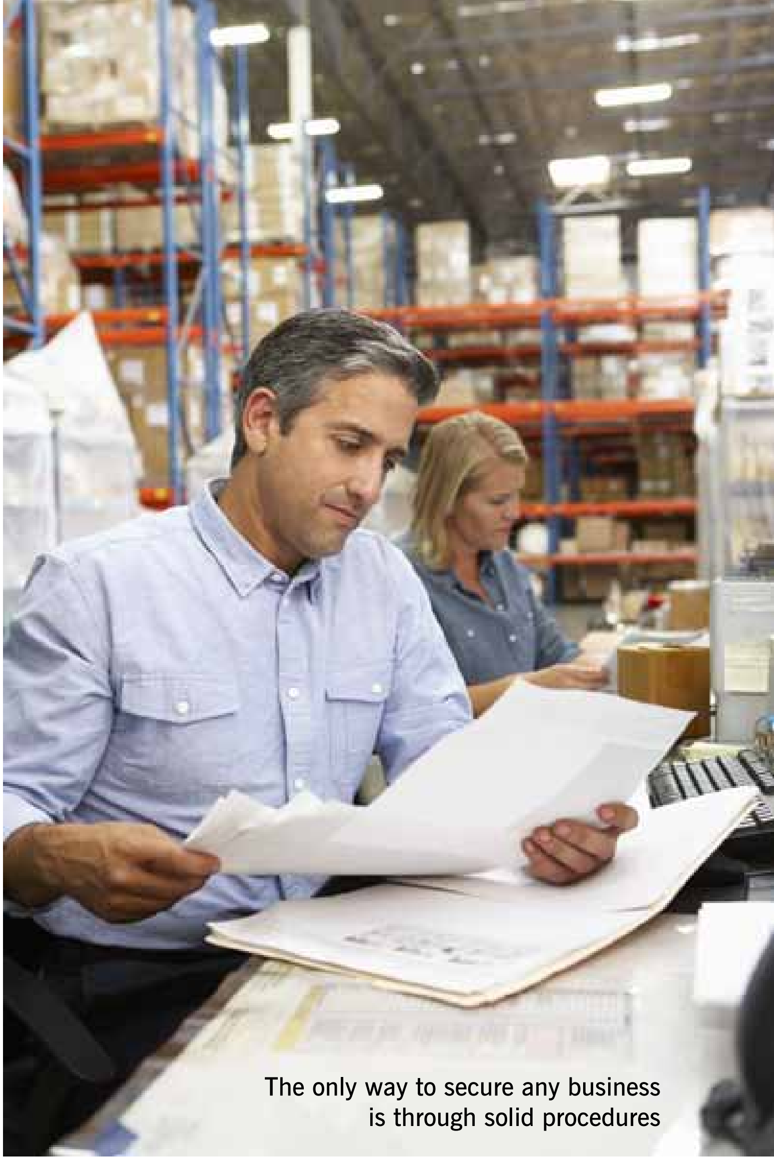
Larger organisations are more exposed, with 75% of organisations with over 500 employees reporting experiences of fraud, while the comparable rate for firms with more than 10,000 employees was 86%.

While only 30% of smaller businesses with less than 100 employees experienced incidences of fraud, it's still a staggering number.

Asked to estimate the extent to which detected fraud represented the total incidence of fraud, respondents said they believe only one-third of their total fraud losses are being detected.

Large company or small, the defence against fraud is pretty much the same: have solid procedures in place to manage money and goods.

Know who you are dealing with and check a potential staff member's background, and be particularly careful about those who will have significant control of your finances. But also remember you will probably not know much about the employee's life outside work. Gambling addiction, debt or pure greed are all motives for otherwise reasonable people to defraud their employer.



The only way to secure any business is through solid procedures

The need for controls includes family businesses, where there can be pressure to hire close relatives without any background checks. Yet family members are as prone to fraudulent behaviour as anyone else, and some experts say fraud is more likely in a family company than any other – because of the "trust factor".

So set up a system of checks in your business to ensure you always have the ability to verify your company's bank balance yourself, and have your accounts independently reviewed on a regular basis.

And when something goes wrong with the accounts, don't leave it to others to sort out.

Fidelity guarantee insurance covers theft and other types of fraudulent activity by employees, but it doesn't take away the feelings of betrayal and anger. We can help you to recover from the mess, but risk management through sensible oversight is what it's really all about.

AIS

A.I.S. Insurance Brokers Pty Ltd

137 Moray Street
South Melbourne 3205
PO Box 7760
Melbourne Victoria 3004

Telephone: 03 8699 8888
Facsimile: 03 8699 8899
insure@aisinsurance.com.au
www.aisinsurance.com.au