AIS INSURANCE BROKERS

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THE AIS INSURANCE BROKERS NEWSLETTER

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THE UPS AND DOWNS OF COMPETITION

While they don't usually make the business pages of our daily newspapers, there's been a lot of merger and acquisition activity happening in the insurance industry here and around the world lately. It's something that we insurance brokers keep a wary eye on.

After all, if there are fewer insurers, doesn't that mean our options for the policies and prices we negotiate on your behalf are narrowing?

Well, we can assure you there's still plenty of choice for us to work with. Despite changes in ownership of insurance companies, there are still more than 100 insurance companies licensed to operate in Australia.

Coupled with a wide range of underwriting agencies which offer specialised cover usually backed by underwriters at Lloyd's, we're confident your insurance needs can easily be met in the local market. And in the very rare cases where a client may have a highly unusual risk to cover, there are still plenty of options available to us.

The acquisition that's making all the headlines is the takeover of diversified insurer Promina by Brisbane-based Suncorp. Both are very large insurers, and the price tag – $7.9 billion – reflects that.

The industry is at a pivotal point in the legendary insurance cycle at present. The cycle is a global phenomenon that swings around the amount of capital in the market. Put simply, when premiums are high, as they were a couple of years ago, capital is attracted into the market. That makes the insurers more profitable, which encourages them to go after a bigger market share – and the best way to get that is by dropping the price of their products.

Eventually premiums fall to a point where they impact on profitability, capital begins to move out of the market, and the insurers begin to raise their prices to maintain their profits.

As long as the equity market stays strong to support the insurers' shortfalls on premiums, and as long as we're not hit by a major disaster that will affect the level of claims, all's well.

And that's where the insurance market is at present. Most market analysts predict ordinary premiums won't fall much further over the next 12 to 18 months. Some classes of commercial insurance have already stabilised and even risen slightly as the insurers come to grips with the technical pricing of specific risks – a calculation that's becoming a complex science.

It's hard to predict what may happen after that, but there's every possibility the cycle will begin to swing up again.

Insurance brokers are rarely happy with the way the market swings up and down, but there's not a lot we can actually do about it. As we said, it's a global phenomenon.

It irritates us because the price shifts make it difficult to accurately plan your risk management costs beyond the medium term.

The upside, of course, is that as the cycle swings down – as it has been for the past couple of years – competition is making many ordinary insurance premiums cheaper and is sharpening our ability to negotiate good deals for you.

Competition in the commercial insurance market also increases the willingness of existing insurance companies to expand their product ranges.

We're always happy to discuss with you where the market is at, and how that may affect your company.

PROTECT AGAINST UNDERINSURANCE


Photo by Larina Gray

What will recovery cost? Insurance buyers can't expect government financial assistance to make up a shortfall in their insurance

Underinsurance is a growing problem that is responsible for the devastation of families and the failure of many Australian businesses each year. It occurs when people or businesses don't purchase adequate levels of insurance, but insurance buyers can do their bit to ensure they are covered if disaster strikes.

Unfortunately, most home and business owners don't discover they are underinsured until they need to make a claim, at which point it is too late. Many people affected by underinsurance are left with huge unmanageable costs.

The solution to the problem of underinsurance is to get it right in the first place. And as so many small businesses accessing insurance through an insurance company's call centre have found, getting the right cover at the right price requires specialists.

That's us. By far the most efficient way to obtain effective insurance cover at the best price is to work through your insurance broker. We provide detailed advice on the kinds of insurance cover you need for your unique risk exposures. And when you do have a claim, you're not out on your own – we're here to assist and take the hassle out of the claim process.

The Australian Securities and Investments Commission (ASIC) says at least 50% of the homes affected by Cyclone Larry in Far North Queensland last year were underinsured. On top of that, insurers suggest building costs increased at least 50% after the disaster.

Underinsurance levels for businesses in Australia are equally alarming. In fact, without adequate insurance, 70% of small businesses fail within 12 months of suffering a major loss.

For insurance buyers determined to go it alone, it's important to understand some basic insurance terms, such as the difference between "replacement value" and "market value". If a policy says the insured is covered for "replacement value", it means the insurer will cover the cost of replacing the old item with a new one. If the insured is covered for "market value", it means the insurer will provide cover for the amount an item was valued at when a policy was taken out.

An ASIC survey of 17 insurers after Cyclone Larry hit the Queensland town of Innisfail last year found that most settled claims for amounts greater than the policies actually allowed. But ASIC says insurance buyers cannot expect financial assistance when it is their responsibility to obtain adequate cover.

Nearly all standard home building policies require the customer to calculate the costs involved with rebuilding. ASIC found that while the sum insured may have been sufficient to cover rebuilding costs when the policy was taken out, rebuilding costs can rise over time.

Otherwise adequate policies also won't meet the cost of rebuilding a home after a catastrophe because of the surge in building prices.

But more insurers are now offering total replacement policies and extended replacement policies than they were in 2005. Some insurers also offer extended replacement policies, where they will meet potentially higher rebuilding costs than the sum insured when a property is destroyed in a mass disaster.

A number of insurers are also offering sophisticated elemental web-based calculators, which can be used to accurately estimate the insured contents of a home. In 2005, only three insurers utilised this technology.

Insurance buyers who are at the greatest risk of becoming underinsured are those who have been insured for 10 years or more; people who have renovated their home or business premises and have not upgraded their policies; and people who own property in areas where there have been significant changes to building code requirements.

Most businesses let us know when they have bought new equipment or other assets so we can arrange instant cover. Those clients who also hold personal lines policies through us should keep in mind that significant new household assets also need to be listed on their insurance policy to be covered.

Don't hesitate to give us a call if you would like us to check or update your coverage.

WE'RE THE BEST KEY TO GOOD INSURANCE

As one of the thousands of Australian businesses that secure their insurance via a professional broker, you're in good company. The amount of business handled by Australia's 2600 brokers is growing all the time.

"Brokers work for the direct benefit of their customers," says National Insurance Brokers Association CEO Noel Pettersen. "Is it any wonder people prefer to work through someone who knows the industry and is on their side?"

We couldn't agree more. As your insurance broker, we're proud to be involved in your risk protection strategy. Businesses are turning more and more to professionals who can provide the best risk advice and the products that minimise risk.

Helping hand: your broker is an essential part of your business strategy

A recent survey of the general insurance industry by JP Morgan and Deloitte shows broker distribution increased more than 4% over last year. That's on top of a smaller change recorded last year and further increases since 2002.

The increase came at the expense of the direct distribution methods traditionally favoured by insurers. Business secured through call centres, direct insurance agents and underwriting agencies all dropped off over last year as customers turned to broker-sourced products – and the expertise that comes with it.

Mr Pettersen says he's not surprised by the figures but the size of the shift has certainly raised eyebrows in the senior offices of Australia's commercial insurers.

They had predicted and hoped for a decrease in broker influence, and had invested plenty of cash to help make those dreams come true.

Analysts were less surprised. JP Morgan insurance expert Shane Fitzgerald says the latest figures are part of a longer-term trend that insurers appear unable to halt.

"One of the consistent trends evident in the survey over many years has been the prediction by the underwriters that the brokers' share of the commercial insurance market will decline moving forward," he said.

"As such, it's very interesting to note that exactly the opposite has occurred with the brokers significantly increasing their share of the market – from 63% to 75% over the last five years."

Broker influence is also on the rise in the personal lines market, even more so than in general insurance. While insurer investments into their call centres and internet distribution has helped increase the amount of business going through these channels, brokers enjoyed almost twice as much new business over the year.

The trend is the same over five years of JP Morgan Deloitte surveys. Over that period, broker use has jumped nearly 4%, the same as for call centres and a little less than the amount of new personal business being sourced through the internet.

The traditional means of distributing personal insurance lines have taken a beating over the same period. Insurer branch networks, for example, lost more than 10% of their business to brokers and lower cost direct methods.

Mr Pettersen says we brokers offer a knowledgeable and professional service that ensures their client has the best cover possible. In the commercial sphere, we can tailor policies to the individual business – something that saves you time, money and, importantly, worry over the long term.

"Like an accountant or lawyer who provides you with professional advice based on years of training and experience, a qualified broker can do the same with your insurance," he said. "They'll ensure you have all the cover you need and aren't paying for cover that you don't need."

It's a message that seems to be getting through. While insurers are again predicting a reduction in broker influence this year – with brokers' share of the market to fall 3% by 2012 – the move towards broker expertise shows no real sign of slowing down.

LIABILITY PREMIUMS MORE AFFORDABLE

In 2002 Australia experienced a crisis over liability insurance. With capital disappearing from the market and court settlements escalating, insurers severely limited their exposure to liability risks.

It was a frustrating period, as all unusual or higher-risk cover became scarce. Public liability and professional indemnity insurance became very hard to arrange.

Many community groups, volunteers, professionals and small business operators faced the prospect of having to limit their activities or even close down as a result of the lack of insurance cover.

However, due to the lobbying efforts of the industry, tort law reforms were implemented across Australia by the federal, state and territory governments.

These reforms minimised the cost of personal injury claims through caps and thresholds on court-awarded settlements.

The situation has eased considerably since then. There are now more options in liability classes of insurance – and better prices.

The legal profession, in particular, has been critical of the reforms that lowered the cost of claims and made liability insurance more easily available. The insurance industry has been accused of overstating the scale of the liability problem and even of profiteering.

In 2002 the Federal Government asked the Australian Competition and Consumer Commission (ACCC) to monitor costs and premiums in the public liability and professional indemnity insurance markets every six months. The monitoring role is now carried out by the Australian Prudential Regulation Authority.

Its data shows that public liability and professional indemnity (including medical indemnity) insurance premiums have fallen significantly.

During 2005, public liability insurance premiums fell on average by 13.4% and professional indemnity insurance premiums fell on average by 6%. This followed falls of 6.9% for public liability and 1.2% for professional indemnity insurance in 2004.

But in January 2007, 60.5% of brokers participating in a market conditions survey noted that falls in liability insurance premiums are slowing.

Public and product liability insurance classes represent less than 10% of insurers' total revenue. Some don't offer it at all. However, the legal lobby continues to link insurers' present profitability with liability insurance.

The Federal Government has praised state and territory governments for ensuring liability premiums are now more affordable and available.

In a recent report, "Available and affordable: Improvements in liability insurance following tort law reform in Australia", the Government says the state and territory governments must maintain their commitment to the reforms so that the longer-term benefits for Australians are realised.

A PROFESSIONAL MEMBER: Our company is a member of the National Insurance Brokers Association of Australia, the organisation that represents professional insurance brokers in Australia. Membership is based on our professional standing in the insurance industry including our experience and expertise and our ability to meet the stringent requirements of NIBA.

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