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THE AIS INSURANCE BROKERS NEWSLETTER

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INFLATION IMPACTS ON CLAIMS, TOO

It's not hard to see why insurance companies have begun increasing premium rates, given the inescapable effect of severe weather and the global financial downturn.

Both the underwriting and investment sides of the business are under pressure as claims soar and financial returns dwindle.

Buyers of personal home and motor insurance and commercial professional indemnity cover are among those facing higher costs as a result of the current environment.

But aside from these factors there are other less obvious matters to consider. Insurers are also dealing with an across-the-board increase in the actual cost of claims – otherwise known as claims inflation.

The simplest explanation is that the cost of labour and building materials – a core component of many claims – has continued to rise over the past few years.

An annual survey of the insurance industry compiled by JP Morgan and Deloitte reveals all but one class of insurance saw claims inflation rise last year as costs increased for "vital inputs".

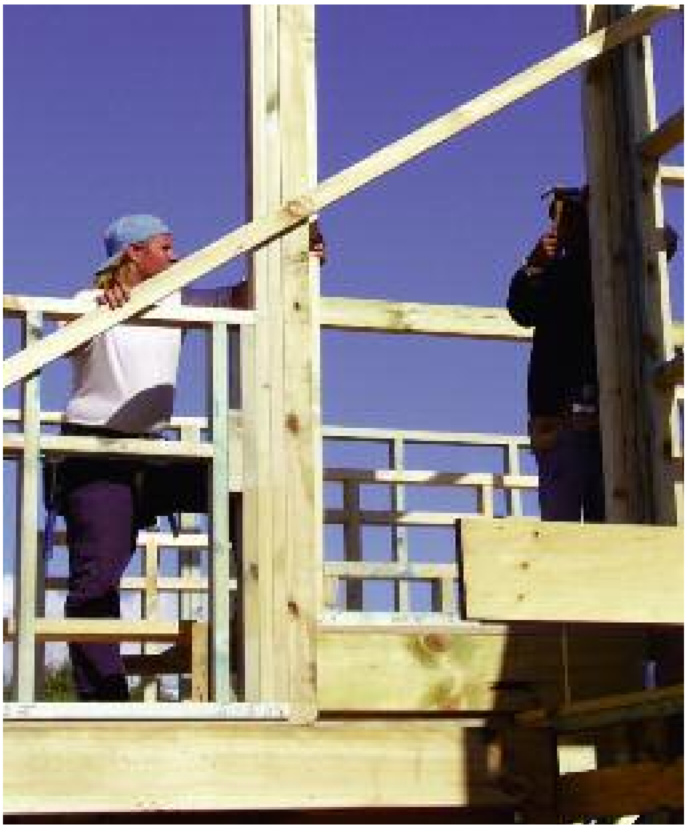
The report revealed claims inflation increased by an average of 5% across all insurance classes. Within the specific classes, the increase in inflation ranged from 3% in professional indemnity lines and 4% in personal home cover to 6% in commercial motor and 9% in workers' compensation cover for Western Australia.

Only directors' and officers' insurance witnessed claims deflation during the period, with the cost of meeting claims falling 1%.

In most of the other classes of insurance, more expensive materials and wage increases have been major contributors to spiralling claims inflation.

In commercial motor, for example, it is becoming more expensive to pay servicemen who are qualified to repair increasingly sophisticated equipment in cars.

The 31% decline in the Australian dollar against the US greenback



Claims inflation is increasing due to the rising cost of repairs and labour

hasn't helped, hiking the cost of materials imported from abroad.

The significant 9% spike in WA workers' compensation cover is attributed mostly to a very high increase in average weekly wages during the mining boom that has occurred in the West.

The good news for buyers of commercial insurance is that despite inflation creep, the market remains very competitive and good quality cover is still available at excellent rates. Talk to us about how we sort the wheat from the chaff to ensure the insurance we arrange for you is the best available at the most economical possible price.

BEWARE OF THEFT FROM THE INSIDE

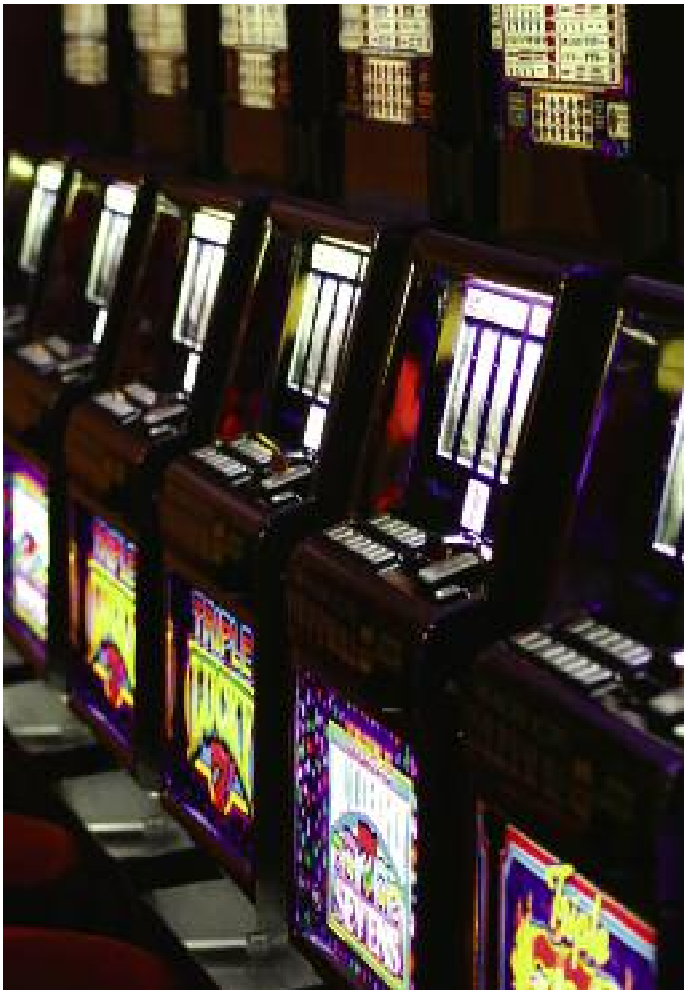
Times are getting tougher, and the rise in economic troubles isn't just something that affects organisations. Often your own employees will find rising costs difficult to deal with.

Now is the time to ensure you have covered all your bases and have adequate risk management procedures in place.

Insurers' books are showing an increase in crime and fidelity claims within companies, and the scope of the global financial crisis suggests this will continue to rise.

Fidelity policies typically cover theft, embezzlement or misappropriation of funds or property directly resulting from acts of employee dishonesty.

It's difficult for any business owner to believe that an employee could steal from them, particularly when that person has a senior role at the company.



Not worth the gamble, especially if you have an employee who does: fidelity insurance covers a business exposed to potential employee theft

Many businesses prefer to deal with the problem themselves as they believe it's an in-house issue, one that they will be able to pick up early – and besides, even if it did happen it wouldn't be a big claim. Not so.

Brokers say their clients who have had to make claims as a result of employee dishonesty are often surprised at how big the claims are and over how many years the thefts have occurred.

For example, one motor dealer discovered a staff member had stolen spare parts worth more than $90,000. Another company discovered a staff member had stolen nearly $1 million from a trust account over a period of five or six years.

It was a small company and the person who did the stealing was regarded as totally trustworthy.

Any company that has money held in a trust can be a target, but small companies are the most common victims. In fact, any business with a cash register – pubs, clubs and the retail industry in particular – can experience employee misappropriation.

Each fidelity policy differs in the type of cover it provides. Some have a discovery period of 12 months. Some policies also include an excess for each act, even if the acts were committed by the same person.

It is also a good idea to check if fidelity is included in an existing policy that you may already hold. Some industrial special risk policies include a small sub-limit. Management liability policies may also include a sub-limit for fidelity.

You may wish to increase that sub-limit or purchase fidelity cover as an add-on rather than buy it as a standard policy.

Larger companies, on the other hand, may find it more appropriate to have a broader crime coverage rather than a fidelity policy.

The key issue is that you hold some sort of employee theft cover, particularly as economic conditions worsen and people look to any means to meet their costs.

A risk management policy is integral and along with fidelity cover businesses should ensure they take such measures as dual signatories, two passwords, and funds transfer instructions and procedures.

Talk to us about what the right sort of arrangement is for your company. We're not saying you shouldn't trust your employees – but you should consider the consequences of someone betraying that trust.

PROTECT YOUR LIVELIHOOD

Insurance is a crucial form of protection for anyone running a business, and professional indemnity insurance belongs near the top of the list of products necessary for anyone who takes a fee for providing a service.

Professional indemnity insurance covers legal costs and potential compensation if a client decides your services have failed to meet the standard expected of your profession.

For many professionals, including people like accountants, financial planners and, yes, insurance brokers, professional indemnity insurance isn't just recommended, it's a legal requirement.

Professionals are typically highly skilled experts, but mistakes can and do happen. When professional indemnity insurance stands between you and a hefty financial loss, you'll understand why it's regarded as an essential for professionals.

The policy is designed to protect your business and personal assets from potential claims and legal action should an act or error result in financial loss to your customer. And analysts warn claims are likely to increase as a result of the current economic downturn.

Policy terms are typically broad, with cover extending to breach of duty, defamation, criminal or malicious acts and breach of fiduciary duty. This includes loss or damage to documents, bodily injury and property damage incurred from professional services covered by the policy.

Your insurance should cover a high proportion of civil liabilities that may arise from your everyday work. The first step is to talk to us. We will find a policy that's best suited to your specific business risk.

Competition among the professional indemnity insurers remains very strong, although increasing exposure is likely to put pressure on premium rates.

It's crucial to gain good advice when you take out professional indemnity insurance, because cover can be complicated.

Remember that professional indemnity is a "long-tail" policy, which means many claims may arrive some time – even years – after you have provided a service to your client.

Professional indemnity insurance expires when you cancel the policy, so many clients choose to renew the policy for several years after retirement to ensure they are protected against claims that may occur long after they've retired.

Further complications arise if you decide to switch insurers. If a customer makes a claim that relates to a period covered by an old policy, your new cover is unlikely to protect you. Because the old insurance cover has expired, your decision can be costly.

Professional indemnity insurance protects anyone who takes a fee for service

We will help minimise your risk and sort out any complications. It's our job as your insurance expert to ensure your policy is tailored to your circumstances.

INSURANCE? IT JUST MAKES GOOD SENSE

Some people say insurance is for pessimists. But you won't hear much optimism from small to medium enterprise (SME) owners caught short on insurance cover.

Some property owners in fire-ravaged Victoria this year have learned the hard way that underinsurance can have devastating consequences. The same thing happened to Canberrans in 2003.

Policyholders whose coverage has not kept up with the times all too often find themselves out on a financial limb.

If something went terribly wrong at your business, would you have adequate insurance cover to continue trading with minimum disruption, or indeed continue trading?

Last year the Insurance Council of Australia surveyed SME owners about their level of coverage. There were some sobering findings.

These included:

- 26% of SMEs are non-insured. They do not have any form of general insurance at all. 7% don't even know if they're insured.
- Sole traders have the highest rate of non-insurance, with 40% operating their business with no general insurance.
- Of the SMEs that purchase general insurance, 94% indicated they considered that they were adequately insured. This means that more than a third of all SMEs do not have adequate insurance.

What can go wrong at your business? What risks should you have adequate cover against?

You can save yourself much heartache with a strategic insurance program, based on advice from a good insurance broker. That's us!

Here are some forms of insurance commonly used by SMEs. Consider the list a starting point, because businesses have their own particular risks relating to the nature of their industry and other factors:

Business interruption; burglary; employment practices liability; engineering equipment; fire and perils; goods in transit; keyman insurance; loss of money; motor insurance; personal accident, illness or disability; products liability; professional indemnity; public liability; and workers' compensation.

More specific cover is available against glass or sign breakage; perishable food or other stock deterioration; computers and computer records; business machines and equipment; legal expenses/tax audit; fidelity guarantee; product recall; credit/bad debts.

Again, this list is by no means exhaustive.

Some organisations, especially larger businesses or companies carrying on specific types of high-risk work, often require their own specially designed insurance and risk management programs.

We can provide these services too, designing the policies, negotiating them with insurance companies and then placing the cover with one or more firms.

Give us a call. We will match your risk exposure to a suitable policy or policies.

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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