AIS INSURANCE BROKERS

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THE AIS INSURANCE BROKERS NEWSLETTER

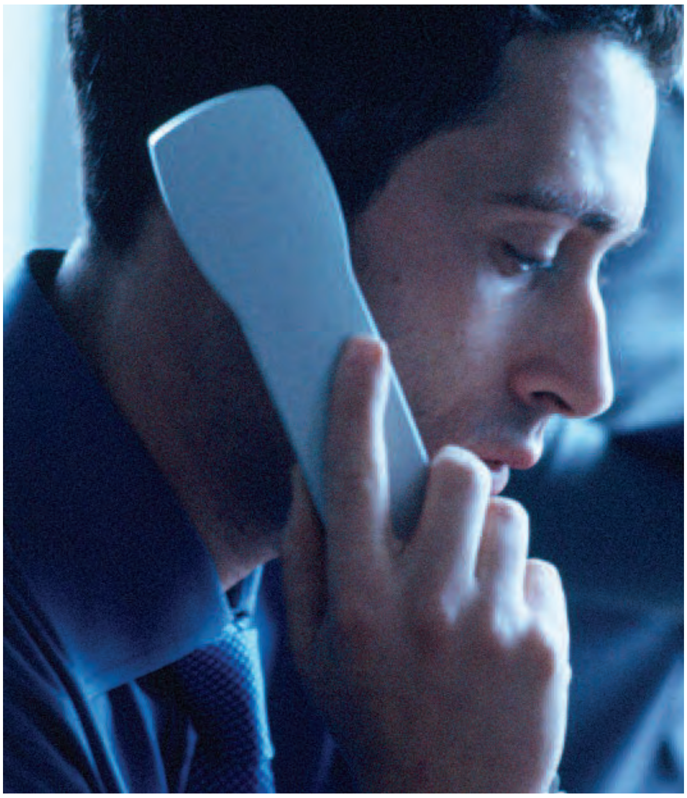
INSURANCE TODAY Summer 2008

D&O: GET IT SORTED NOW

Growing economic uncertainty and an increase in litigation and shareholder actions has sparked a surge in the demand for directors' and officers' (D&O) liability insurance.

Two years ago just 10% of listed companies on the London Stock Exchange were buying D&O insurance – now the figure is closer to 50%. While official figures for Australia are harder to find, we think local company executives and their directors are also taking up this kind of insurance in growing numbers.

All signs point to a "hardening" of the D&O market in price and more restrictions in the cover that policies provide.



D&O rates are hardening as the global financial crisis creates growing demand for cover

A report by commercial insurance data collector Advisen shows American insurers' losses in D&O cover are starting to exceed the total premiums collected. It forecasts losses to D&O insurers are now running at around $US5.9 billion – which it says will cause rates to increase.

It follows then that the renewal period in Australia may see a reversal of the current trend of broadening policy terms, with a more restrictive approach to policy wording negotiations.

So far, however, a number of D&O insurers have shown a willingness to negotiate more favourable terms for their cover.

There is no better time than now to review and lock in your D&O insurance cover before the hard market gets into full swing.

However, it is important to take the time with us to properly review the policy terms and the cover provided to ensure you are getting maximum protection.

Until recently, most D&O policies contained the "insured v insured" exclusion, which means the policy does not cover claims brought by the company against its own directors or by one insured against another insured.

Some D&O insurers have removed that exclusion.

Insurers are also starting to loosen their grip on the "major shareholder" exclusion.

Another area where D&O insurance policies often fall short is that they do not clarify their protection of innocent directors and officers whose colleagues are involved in fraud, dishonesty or misconduct.

Many policies don't make it clear that the innocent directors and officers remain covered by the policy and that misconduct by another director doesn't affect their coverage. They also don't address the risk where the behaviour of one director can prejudice

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COMMERCIAL MOTOR RATES UNDER PRESSURE

A combination of severe weather, theft and repair costs is pushing up commercial motor premiums

South-east Queensland residents ducked for cover as hail, rain and flash flooding lashed the region during November. The $300 million storm (that's the cost to insurers) was the latest in a string of severe weather events in Australia's recent history.

While some insurers put the estimated motor vehicle damage at only about 5% of that cost, it is nevertheless a sharp reminder of the increasing cost carried by commercial motor insurers.

A massive hailstorm that swept western Sydney last year was a prime example. Hail blasted through car windscreens and battered bodywork as motor insurance claims accounted for 63% of the 53,000 claims associated with the $370 million storm.

Floods in the Central Coast area of New South Wales and Mackay in Queensland combined to send claim costs even higher.

National Motor Vehicle Theft Reduction Council figures show car theft declined 8% last year, but more than 59,000 cars and light commercials still went missing and almost a quarter of these vehicles were never recovered.

Claims inflation adds to the bottom line for insurers. Expensive technology that is widely available in modern vehicles is just one example.

Prior to the current financial crisis, company car drivers given the choice were swayed by prestige marques and four-wheel drives with high replacement values, exacerbating claims inflation.

Insurers in mining regions have also faced increased labour costs for repairers in recent years, given the wage growth in the boom towns of Western Australia and Queensland.

Those events have had an unavoidable effect on the bottom line, and after years of deep discounting, premium rates are showing signs of increasing in line with insurer costs.

Fortunately insurers have acted rationally. Some commercial fleet clients are now paying just 5-10% more in premiums.

That's not bad going, especially if events of the past year have equipped you with a shiny fleet of replacement vehicles.

Premiums will depend of course on the associated risk. At the large corporate end of the market, for example, the competitive global pricing cycle may completely erode local factors.

Good quality commercial motor insurance is obviously essential to any business involved in significant on-road travel, so the right cover is essential. As your broker, we will ensure your business is placed with an insurer that understands your commercial motor operations, whether you have sedans, light commercials, heavy vehicles or a specialist transport fleet.

Expert insurers offer a range of additional services such as advice on risk management and relevant safety laws to help mitigate company risk.

So while rates may be set to turn in the short term, stiff competition and disciplined underwriting is keeping a lid on major price hikes.

We have outlined a combination of factors that explain why it's no longer a race to the bottom among commercial motor insurance premiums.

The good news is most insurers have adhered to underwriting price discipline ensuring that any premium increases are rational, not radical. As always, we're well placed to obtain good cover at the best possible price.

UNDERINSURANCE: A CASE STUDY

Before organic food storeowner Joe Bazouni was put in touch with an insurance broker he had no idea that his basic insurance cover may have caused him to lose everything he had worked so hard for.

The owner of Joe's Organic Markets in Alphington, a suburb of Melbourne, had business insurance from a direct insurer and was covered for fire and damage, burglary, glass, and public and products liability and paid $5832 a year in premium. He did not have business interruption cover.

Fruiterer Joe Bazouni in front of his store: the broker was cheaper and more thorough than any direct seller could ever be

But it was not until *Insurance & Risk Professional*, the magazine of the National Insurance Brokers Association, arranged for a meeting between Mr Bazouni and a local broker that he realised just how underinsured he was.

Until that day the small business owner wasn't even aware that he could afford to consult a broker. He'd been buying his insurance from a call centre, and it was costing him hard-earned money.

The broker discovered Mr Bazouni's stock and contents were grossly underinsured. He had cover of just $10,250 for business contents which included four fridges, a cool room, shelving, fixtures, kitchen appliances, surveillance cameras and computer equipment.

He also had an unregistered forklift – which can only be used on the property and is included in the contents insurance – and he did all the renovations himself so roof materials and floors were also included in the cover. He also lacked some legally required cover.

There was also a co-insurance clause in Mr Bazouni's policy wording, meaning he would only be paid 15% of the claim if the insurer determined he was underinsured.

Underinsurance is a chronic problem among Australian small and medium enterprises (SME).

Research by one insurer has found 65% of small businesses in Australia have no business interruption cover while 47% do not adequately insure their stock and contents.

The Insurance Council of Australia also estimates 26% of SMEs do not have any insurance – and the figure is even higher for sole traders at 40%.

In the 10 years Mr Bazouni had held his insurance policy, the most contact he had with his insurer was an annual phone call asking whether he wanted to renew the policy or change his cover.

A representative from a direct insurer said when he deals with business clients, only four in 10 choose business interruption cover, while most ask for the cheapest policy.

Through his extensive contacts the broker managed to provide Mr Bazouni with a quote for insurance that far surpassed what he had – and for just $5467 a year.

He is now insured for $700,000 for material damage, including cover for burglary, equipment breakdown, glass, landscaping, money, sign writing and removal of debris. The policy also includes business interruption cover and general and products liability.

Mr Bazouni's case is proof of how brokers can help their clients avoid financial ruin.

Talk to us about reviewing your insurance cover. It only takes a small accident to destroy a livelihood.

TIME TO PREPARE FOR BUSHFIRE SEASON

The 2008/09 bushfire season is well and truly here – and lack of rainfall over winter combined with dry conditions across the country presents a considerable risk.

The danger period for most of southern Australia occurs during summer and autumn, when the temperature is high and conditions are dry. In northern regions, most fires occur during the warm dry winter and spring, when grass is dead and potential fuels have dried.

With the frequency of days with extreme fire danger projected to increase by as much as 25% by 2020, consider this a timely reminder to review just how well your assets are protected and then – the essential backstop – insured.

Taking the risk on yourself by not insuring is a big call that could well end in tears. Non-insurance isn't a calculated risk – it simply isn't worth it.

So, talk to us about your fire risks, mitigation measures and so on. Let's be sure you've got all that property covered before the bushfire season really heats up!

Bushfire season is not the time to underinsure – review your cover now

From front page

the cover of the innocent directors and officers.

Whether you own a business or are part of the management of a company, you need to take the time to review your D&O insurance to ensure you have the right cover with the best protection.

Talk to us about the different policies on offer and we will help provide you with the advice you need to escape the hardening market and have the best cover to avoid a side-effect of these difficult economic times.

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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