AIS Liaison
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The pressures that push premiums up and down

The insurance industry is in many ways a contrary business. It sometimes makes big profits when other industries are doing it hard; and it raises and drops premiums for reasons that often seem to make no sense.

But that's not really the case – not always, anyway. It's an industry governed by risk, capital and competition, and the three can affect each other in a variety of ways.

Downward pressure on premium rates in household and private motor insurance – the so-called domestic lines – will continue through the next year.

In the property classes of insurance, the major natural catastrophes in 2011 and corresponding premium rate rises were followed by several years of relatively benign activity. And that, not surprisingly, has led to a period of high profitability.

When profits are high, insurers will (albeit cautiously) begin to drop their rates to attract new customers. A more competitive market results, with customers benefitting from lower rates.

That doesn't mean rises will be across the board. Insurance companies will still assess a business on the risk it carries, which is where the broker comes in. It's our job to represent your risk to the insurers and get the best possible deal for you.

We are aware that some insurers are still taking a cautious approach, sacrificing premium growth for a higher quality portfolio of customers with manageable and measurable risks.

There have been few major natural catastrophes, and the abundant levels of capital in the market are dampening any drive for premium rises. The recent Brisbane hailstorm, for example, was not enough to push up premiums despite what is expected to be a $1 billion loss.

Overseas, poorly performing investment markets are forcing major investors like pension funds to seek a safe place for their capital. The reinsurance (insurance for insurers) industry fits that description very nicely, and as a result there's an over-supply of capital in the market. While that situation won't last forever as overseas stockmarkets recover, for now premium rates are falling as the reinsurers also become more keen to build their customer portfolios.

In the local insurance industry, commercial lines of business have generally stayed level for the past couple of years. Over the next year insurance companies will be under greater pressure to either hold premiums or, where the risk allows, drop them.

Don't expect the sort of massive premium dips and rises of the last decade to be experienced now, however. The scene has changed. Following the global financial crisis insurance companies focused on cutting expenses and increasing their understanding of risk. They built leaner and more sophisticated operations.

Adjustments after the catastrophes of a few years ago have also resulted in smarter underwriting processes and more considered exposure to risks.

This is all expected to smooth the rise and fall of premium rates.

Insurance has always been subject to hard and soft market cycles, usually driven by reinsurance markets looking to restore capital following a major catastrophe.

There is an argument, however, that the cycle is flattening out due to the high levels of reinsurance capital available now.

So as you can see, there are challenges ahead but the insurance companies we work with are supported by strong capital positions, conservative investments and robust earnings.

It's our job to help you take advantage of any changes in premiums over the next year or two. Even as new risks emerge and threats to commerce become more acute, we'll work with you to keep you and your business safe and secure.

Rise of warranty and indemnity

If you've ever taken over an existing business or merged with a former competitor, you'll understand when we say that it's a very difficult and uncertain period.

In many transactions, one of the most contentious parts of the acquisition agreement is the warranties and indemnities that provide critical information to the buyer about the business it is purchasing.

That's where warranty and indemnity (W&I) insurance comes in. It can help smooth the road ahead by transferring to an insurer the risk of any of those warranties being breached.

The sale is done, but what happens if everything goes wrong?

The cover enables parties to restrict potential liability if information provided during a sale turns out to be incorrect and the buyer takes a loss.

While W&I insurance hasn't been widely used in Australia, that's starting to change as businesses of all sizes see they can gain a quick boost to growth and profit by merger or acquisition with other businesses.

Even if the seller gives a warranty, there is no guarantee they will have the funds to meet a claim further down the track.

The insurance process can also force the seller to provide more information, allowing the buyer to make a more accurate assessment of the deal.

W&I insurance can be taken out by either buyer or seller, and can also be extended to include other parties, such as a guarantor.

With seller W&I, the buyer claims against the seller for breach of warranty in the usual way. The policy covers damages suffered by the seller from the buyer's claim.

Buyer W&I responds directly to damages following insured breaches of the warranties.

The cover is most often used when a private company is the target of an acquisition.

It is relatively easy to find information on public companies, but buyers of private businesses can feel like they are leaping into the unknown.

There is an increasing trend for sellers seeking a "clean exit" from a transaction to require the buyer to hold a W&I policy.

This means that the buyer's sole recourse for any loss incurred from breach of seller warranty, except for fraud, is to that insurance, allowing the seller to move on to other ventures or retire.

Because the transaction process varies significantly, each W&I policy is specifically tailored but the average premium is stable at between 1.25-1.5% of the insured amount.

It may be advisable from the buyer's perspective for the seller to retain some liability because the risk of a warranty claim creates a strong incentive for comprehensive due diligence and a detailed warranty verification process.

If the buyer's only recourse is to claim on warranty insurance, then this incentive is reduced.

There is also an argument that to have effective liability insurance, there must be a liability.

If the seller has zero liability, the buyer may not be covered for a warranty breach because there would be no liability on the part of the seller for the insurer to indemnify.

W&I insurance has grown significantly in Australia over the last two to three years.

It can make life easier for buyers and sellers, and calm the sometimes choppy waters of mergers and acquisitions.

But it must be remembered that it is not a one-size-fits-all product, and requires careful consideration and drafting.

As your broker, we can help you through the merger and acquisitions minefield without losing any sleep worrying whether the whole thing could go off the rails after the deal is done.

Driving down costs of fleet

Insurers are increasingly promoting telematics as a way to reduce the costs of motor insurance.

By recording how well a vehicle is driven, they can more accurately assess drivers' behaviour, and therefore the risk they pose. That means premium costs can be brought down for safer drivers.

The attraction for domestic motorists is clear, but the technology is having a growing impact on motor fleet insurance – where costs can be cripplingly high due to the level of claims.

Businesses rely on their drivers to behave professionally and drive in a safe manner, but persistent problems include speeding, excessive acceleration, heavy braking and harsh cornering.

This can result in increased accident frequency and, ultimately, higher premiums.

Globally, about 6% of fleet vehicles are involved in a collision each year, and many of these accidents are preventable.

Telematics can give fleet managers extensive information on driver conduct, as well as the vehicle's location and how it is being used.

Systems typically monitor speed and measure forces exerted during turns, starts and stops. Instant feedback can be provided to the driver, and comparable scores can be generated on an individual's record.

No one wants to be considered a less-than-perfect driver, and if "driving professionally" means driving more carefully and smoothly, they'll try to achieve better performance. In this case, peer pressure is a wonderful thing!

Fleet operators can identify root causes of driver behaviour and implement training and safety regimes to improve productivity, reduce collision risks and ensure compliance with regulations.

Telematics can also help save money on fuel and vehicle wear-and-tear.

Even the insurer gets a benefit. Fleet insurance is a challenging line of business for many, with consistent profitability hard to achieve.

Being able to set rates more accurately and improve risk assessment processes helps drive down losses and identify the best quality business.

The technology also makes for more efficient claims-handling, because claims can sometimes be delayed as information is sought to determine what happened in the lead-up to an accident.

With telematics in place, reconstructing events can be done with greater certainty and confidence.

And telematics as we know it today could be just the beginning.

Most manufacturers aim to have autonomous vehicles available by 2020, with Google having already unveiled a robotic car prototype with no steering wheel, accelerator or brake pedal.

Vehicles that steer and park themselves, read road signs and perform emergency stops without driver input are, metaphorically speaking, just around the corner.

By removing the need for human input, you remove the potential for human error, which contributes to 90% of collisions.

But while the technology is almost upon us, fully autonomous vehicles are unlikely to become commonplace for a long time to come.

A raft of regulatory and legal complications will have to be overcome, and the vehicle will need to be affordable, too.

There are also unanswered questions about liability in the event of an accident. Will the operator be liable, or the vehicle manufacturer?

But we can be sure the technology will evolve gradually, and as it does it is important not to allow complacency to set in.

Telematics and driverless vehicles have the capacity to revolutionise motor and fleet insurance. But each new feature must not be seen as a comprehensive solution, just one more step in the right direction.

If you'd like to discuss how we can help you improve your drivers' safety and reliability, give us a call – we'll be happy to advise you on the best way forward.

Travelling the right way

This is the time of year when Australians of all ages start planning ways to enjoy the "endless summer" by travelling overseas when winter begins to bite at home.

Our experience flowing from the myriad things we've seen go wrong with clients and friends while travelling tells us that the old saying is absolutely true: If you can't afford travel insurance, you can't afford to travel.

Australians increasingly accept that message, with most of us unable to ignore the stories of overseas tragedy and unrest that hit our TV screens on an almost daily basis.

But there is travel insurance, and travel insurance, and pointing and clicking on the first cheap policy you see is likely to leave you stranded if trouble occurs.

In the 2012/13 financial year more than 200,000 travel insurance claims were paid – but about 20,000 were rejected.

This was usually due to a misunderstanding by the purchaser.

Nobody is suggesting you should read the product disclosure statement of every available policy.

But we can help get you on the right track, and basic consideration of your destination and likely risks is advised.

Not all insurers provide cover for epidemics in the areas you're planning to travel to, and many won't cover changes to plans due to a riot or civil unrest.

Consider whether you need additional cover for overnight stopovers, or any special activities such as motorcycling, skiing or scuba diving.

Remember that incidents taking place while under the influence of alcohol are unlikely to be covered, and items of particular value may need to be specified.

Pre-existing medical conditions may not be covered, and you may need to undergo an assessment.

Many policies cover return travel in the event of the death of a relative, but an insurer's definition of relative is quite likely to be different from yours. And some exclude cover for relatives over a certain age.

Keep up to date with world news and travel warnings, as most insurers won't pay if a claim arises because you didn't follow advice in the mass media or from government agencies.

Business policies are available with a broader range of cover for corporate clients.

Don't believe that the worst will never happen. Every year the Department of Foreign Affairs and Trade handles more than 25,000 cases involving Australians in difficulty overseas.

That includes 1200 hospitalisations, 900 deaths and 50 evacuations. The costs can be crippling.

Daily hospitalisation costs in southeast Asia can exceed $800, and return of remains from Europe could set you back more than $10,000. Medical evacuation from the US can be as much as $300,000.

Without travel insurance you'll be personally liable for these costs and there have been many examples of family homes being sold off to return a loved one to Australia for treatment.

Remember – not all travel insurance policies are created equal, and the wrong policy can be almost as bad as none at all.

So consider the specifics of your trip, and then talk to us. We're here to help you get it right. Which is just as well, because you can't afford to get it wrong.

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