AIS Liaison
The AIS Insurance Brokers Newsletter

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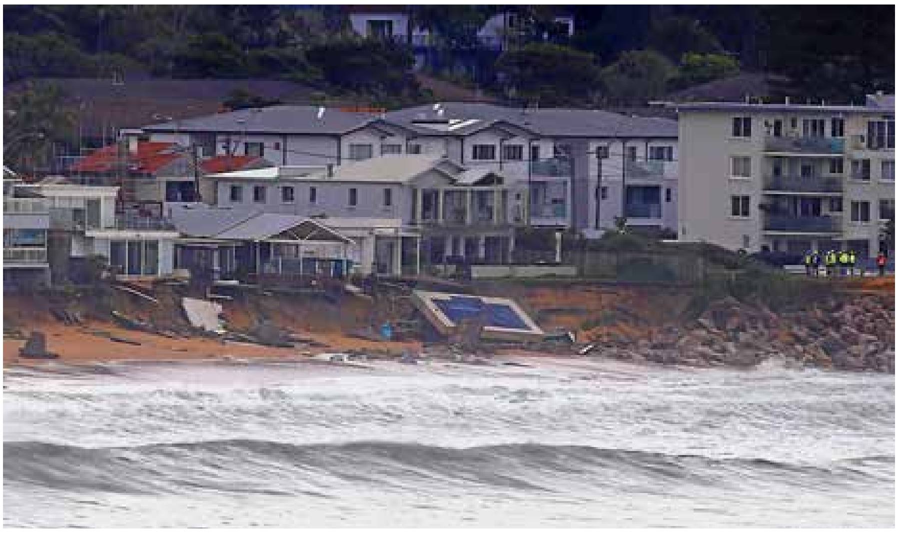
Flood exclusions: a dry argument



One iconic image has become synonymous with the "east coast low" weather system that ripped through several states in early June causing insured losses of $235 million and rising.

The picture shows a swimming pool cast adrift and slipping into the sea at a beachfront property in Collaroy, Sydney, after devastating king tides caused large-scale erosion.

As well as coming to represent the scale of the damage, the image also sparked furious debate about coastal insurance coverage.

Media reports implied that through "actions of the sea" exclusions, the industry could "wriggle out" of covering the losses at Collaroy and other similarly suffering beachfront communities.

But while such exclusions are commonplace, insurers would point out that they are there for good reason.

Insurance is designed to cover something that may or may not happen, not a relative certainty.

Also, except in the most extreme cases, coverage is available from a select group of high net worth insurers, should you wish to pay for it.

But there's a crunch factor. Insurance analysts say annual premiums for such at-risk properties are correspondingly high.

With climate change expected to usher in a new era of more frequent and more severe extreme weather events, plus an as yet unknown rise in sea levels, the coastal erosion issue is not going to go away. Many thousands of seaside properties are threatened.

But it's not something that insurance alone can solve – increased investment in mitigation and development planning is the only answer.

In the short term, experts warn there is a 50% chance of a La Nina weather phenomenon developing this year, which will lead to increased rainfall and flooding across many parts of Australia.

And it's not just on the coast that debates about flood cover can bubble up. Businesses in the NSW town of Picton were left fuming after insurers responded differently to claims following the June storm.

Two metres of water swept through the town, but some insurers sent hydrologists to investigate if damage was caused by stormwater or by flooding from a nearby creek – for which many would not be insured.

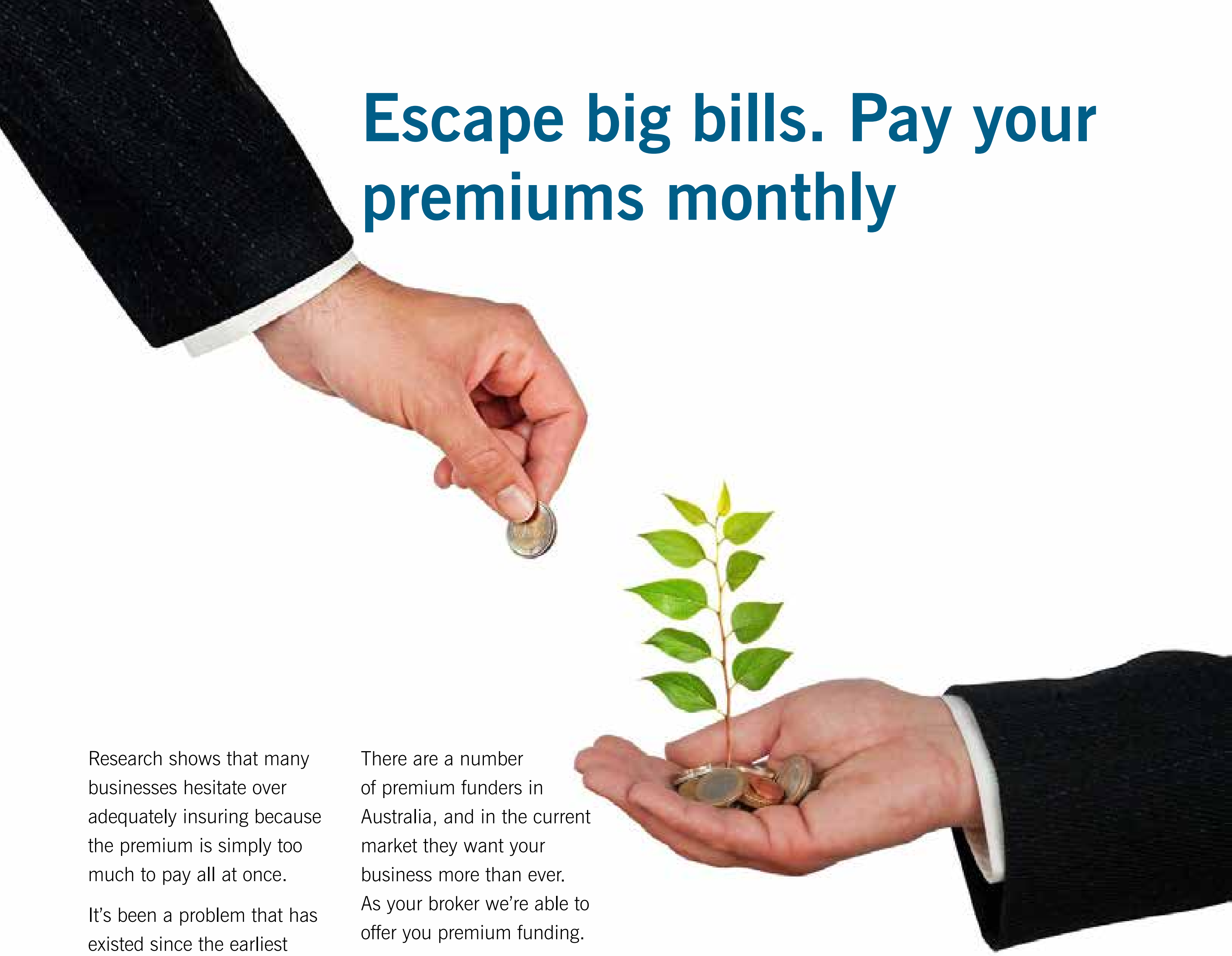
While two major insurers said customers would be covered, another said it would only fully pay 80% of claims.

Flood insurance for businesses can still be a highly complicated affair – and something you shouldn't have to tackle alone.

Speak to us to make sure your cover goes as deep as you think it does.

The risk is rising, but preparation is key to making sure you don't find yourself all at sea when the next storm strikes.

Escape big bills. Pay your premiums monthly



Research shows that many businesses hesitate over adequately insuring because the premium is simply too much to pay all at once.

It's been a problem that has existed since the earliest days of insurance, but these days the wide availability of premium funding has eliminated the problem.

Premium funding isn't intended for businesses struggling to pay their bills – although in such cases the ability to smooth an annual payment into monthly instalments can be a real benefit. But essentially it's a cashflow solution for any business, large or small.

Here's how it works. Some insurers don't give commercial clients the option of monthly payments, so the funder pays your premium for you by the due date, then you pay it back in monthly instalments.

There are a number of premium funders in Australia, and in the current market they want your business more than ever. As your broker we're able to offer you premium funding.

This benefits your business by freeing up funds for use elsewhere in such things as investments, equipment or additional staff, and it can tie all your insurance policies together in one monthly payment.

Interest rates are competitive, technology is increasingly enabling hassle-free, almost instant contract arrangements, and flexible payment options are generally available.

About one in three commercial premiums in Australia are currently funded, and the market is estimated to be worth between $4 billion and $5 billion, with 270,000 funding contracts written every year.

But how is premium funding different to a bank loan?

The key difference is that it can usually be approved instantly, with no checks required.

This is possible due to the "cancellability" of insurance premiums.

If a client fails to make their payments, the cover is cancelled and the insurer repays the outstanding balance to the funder.

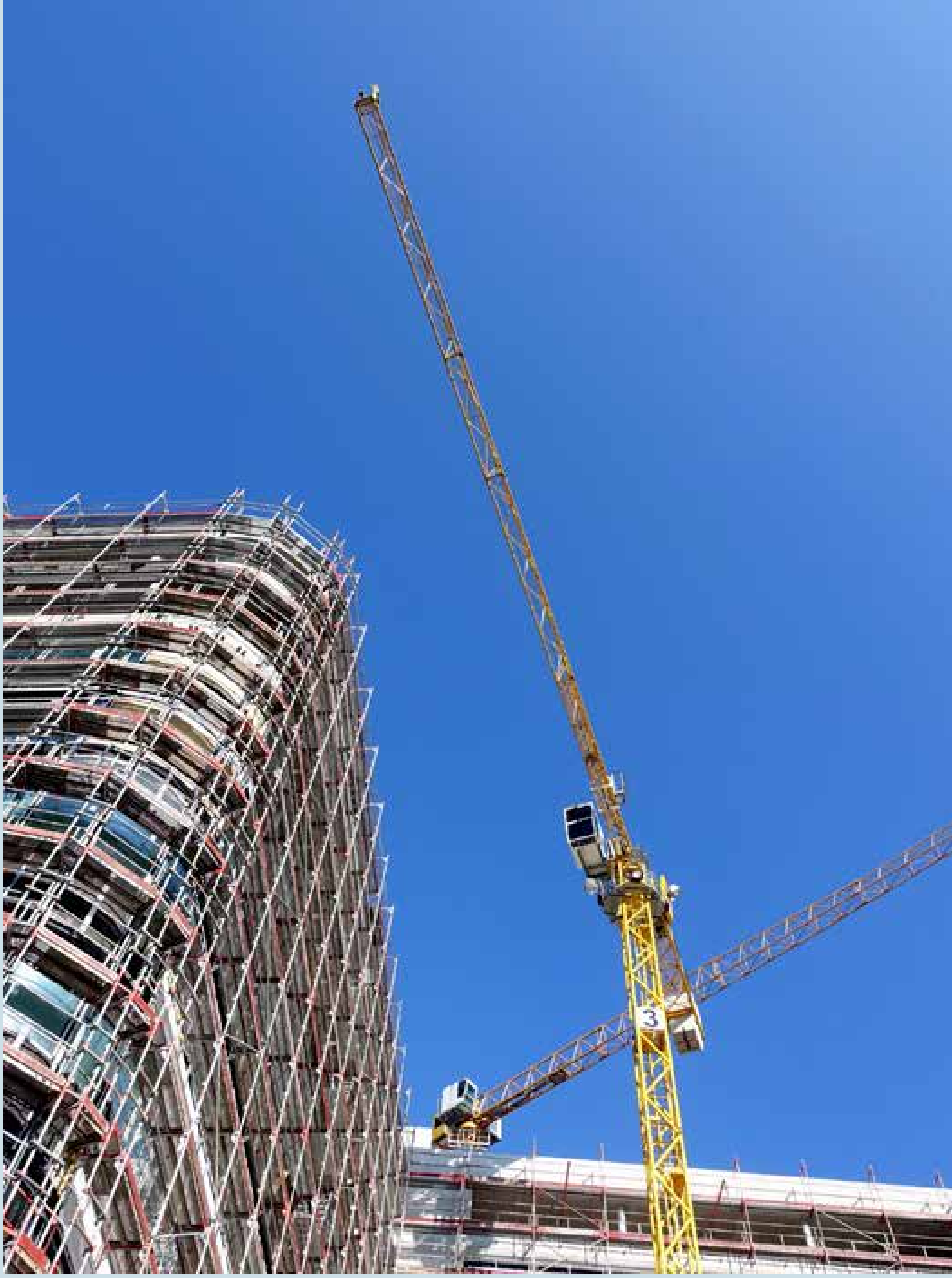
Funding used to be targeted mainly at larger clients, but smaller businesses are increasingly taking up the option.

Many funders are also looking to diversify beyond just the core funding product, with some now able to offer small business loans as well.

Premium funding is a crucial cog in the insurance wheel, without which many businesses would simply be unable to operate, and in the soft market environment, funders are increasingly keen to grow their client base.

Talk to us about the premium funding options that could be available to you. It could make running your business that little bit easier.

Watch out for building hazards



A range of commercial building hazards have hit the headlines in recent months – and it pays to be aware of the dangers that could be lurking within your walls.

The most explosive issue, in more ways than one, has been flammable building cladding, made from aluminium composite panels.

This was brought into stark focus in Australia by a devastating fire in a block of apartments in Melbourne's Docklands in November 2014.

The blaze, started by a stray cigarette on a balcony, raced up the outside of the Lacrosse building thanks to the cladding, imported from China and not tested to Australian standards.

Fire chiefs said it was extremely fortunate nobody was hurt or killed, and warned they had "grave concerns" about future incidents.

Australia is by no means the only country affected, with a spate of similar fires taking place across the world, most significantly in the Middle East.

Aluminium composite panels with a flammable polyethylene core may be appropriate for some uses, but the Building Code of Australia requires the external walls of buildings to be non-combustible.

A Senate inquiry into non-conforming building products was launched in response to the Lacrosse blaze, but was put on hold pending the federal election.

However, the inquiry has already heard enough evidence to demonstrate that flammable building cladding is not the only imported product turning Australian buildings into potential deathtraps.

Faulty electrical cabling, including the recalled Infinity brand, has been installed in thousands of homes and businesses, and time is running out before the cables become a fire or electrocution risk.

Infinity cables, imported from China, turn prematurely brittle and break when placed under stress near heat sources and in roof access areas.

A nationwide recall was launched two years ago, but about 2300km of the dangerous product remains in homes and businesses.

And if you thought asbestos was a problem consigned to the past, think again.

The Asbestos Eradication and Safety Agency warns that despite a ban on the use of asbestos products in 2003, they are being routinely imported.

This includes products declared "asbestos free" but which subsequent tests revealed contained the potentially deadly material.

Building standards in Australia are strong, but there is no room for complacency thanks to the flood of cheap imported materials finding their way through.

It is crucial to be aware of the issues, and alert to the dangers.

If you're building new premises or making internal alterations, be aware of the products your builder is using. There could be insurance ramifications, so talk to us if you need advice on safe materials.

Safety is what telematics is all about

Speed has become the buzzword of the year for fleet managers and insurers. They both want operating data delivered faster from the front line – the fleet vehicles – with the aim of fixing problems before they become accidents.

Accident-free operations mean faster and more reliable deliveries, a safer workforce and fewer claims. And fewer claims mean more stable premiums.

It's all being made possible by telematics, with fleets connected to 4G networks that allow fast data downloads from vehicle to operations office.

The telematics information is being connected into the other office systems of the fleet operator to create a more integrated business tool.

The data is a two-way traffic flow between the driver and the fleet manager, making their operators smarter and more profitable. And if something does go wrong, there is a data back-up for the insurer to handle the claim more quickly and efficiently.

While the background to what happened in accidents may be much clearer now thanks to telematics, repair costs are rising. Vehicle manufacturers are making components more expensive with such things as Xenon headlights, sophisticated braking systems, onboard computer systems, multiple airbags and more assemblies rather than individual parts.

Trucks and light commercial vehicles are far safer to drive now than they once were, but growing use of plastics means even a minor collision might involve a replacement of a significant part of an external body. While plastics have meant cheaper replacement costs, more of the damaged vehicle needs to be replaced.

And the cost of replacing some complex parts such as airbag systems might result in the insurer writing the vehicle off, because the cost of repairs can exceed the value of the truck or light commercial.

Despite all the technology loaded into trucks, vans and other light commercials today, accidents are still going to happen. For truck fleets most are single vehicle accidents – 71% in 2015 according to the National Truck Accident Research Centre.

These tend to occur between 10am and 4pm during the day when the number of commercial vehicles on the road is at its highest. And 67% are on the outward journey from their home base.

Are driverless trucks likely to change the claims equation? There are suggestions that robotic fleets will not need to be insured as they will be so safe. But fact and reality are still a long way apart.

While a number of functions in a vehicle are now being computer-controlled and make driving safer, human intervention is going to be around for some time. The Association of British Insurers has put a damper on robotic fleets taking to the roads in the next few years at least.

It says even use of the term "driverless" is "misleading… and potentially dangerous".

"At least until the very long term, a car is going to require a trained, competent and sober driver to oversee its operation, even if it is operating autonomously."

So for the foreseeable future the best way to deal with fleet safety is going to be the teamwork between fleet operator and insurer that's making real inroads into accident rates. Telematics is all about safety and efficiency, and we're all about helping you to ensure your company's vehicles are used safely and effectively. Large or small, talk to us about how we can help you.

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