

WINTER 2013

Simple – But is it the best?



As many owners of small to medium-sized businesses will attest, when it comes to the myriad responsibilities that fall squarely on their shoulders, insurance is the one purchase where a simple, fast solution is preferable to long hours poring over arcane terms such as “exclusions” and “insured sums”.

It shouldn't be. More than 80% of small businesses fail in their first year, and for those that do make it past 10 years – when the failure rate bottoms out at about 35% – the smallest of unexpected events can quickly turn a tidy profit into a substantial loss.

According to the Australian Bureau of Statistics, 42% of small businesses failed from 2003 to 2007, and more than 30% have gone under since 2008. Another 1095 Australian businesses were placed into insolvency or external administration in March 2009, followed by another 1123 in February 2012.

SME businesses fail for a host of reasons, the most common being a lack of experience and strategic management. Poor location and cashflow planning also feature significantly.

However, more than 33% of business failures, according to a 2010 business report, can be attributed to poor financial controls – which include inadequate insurance arrangements.

When it comes to insurance, small business is exactly the same as big business – not having insurance cover for the risks you face is every bit as destructive as having no insurance at all. But for SME owners seeking a fast cover-all for their insurance needs, some insurance companies have devised a one-stop shop – the business pack.

These vary from insurer to insurer but generally tie up the most common covers required by small business into one policy.

They usually include cover against business interruption, theft, general property, liability and machinery breakdown.

Business packs can also include covers for employee theft and goods in transit. Some insurers will only offer these covers as extra-cost items, and workers' compensation is usually a separate cover.

While most business packs offer a degree of flexibility by allowing businesses to “pick and mix” covers and extensions, the old saying still applies: SME buyer beware.

Business packs are an amalgam of all the various business insurance covers in one package, but they often sacrifice customisation for simplicity.

Where almost all business insurance was once procured through a broker, insurance companies have now carved a niche selling business packs direct to SMEs. But every business is different, and you can't ever be certain you're completely covered unless you've been advised by a risk expert – your broker.

Without a thorough understanding of your business, many insurers will miss essential or unique covers required by your type of company.

Business packs sound too good to be true, and alas, they often are. Without the understanding and insight an insurance broker can bring to your business, business owners run the risk taking out an insurance policy that is simple, cheap and effortless – and completely worthless.

We're here to help and qualified to advise, so for the sake of your own peace of mind, contact us.

Workers' welfare in vogue

The dream of a unified workers' compensation scheme may not be much closer to reality, but a slate of recent reviews has renewed hopes for a more ambitious streamlining.

While Australia's different workers' compensation regimes – 11 in all – can add substantially to the costs of large employers with a national footprint, it can also be a confusing minefield for smaller employers with staff who occasionally work across state lines.

With three workers' compensation examinations completed this year and reforms already being implemented in New South Wales and the ACT, workers' welfare has never enjoyed such a high profile.

Beginning with NSW in 2012, overhauling workers' compensation law has become a national pastime, with Victoria, Queensland and the Federal Government all tabling reports in the past three months.

While the desire to investigate the effectiveness of workers' compensation has been uniform, the findings of these reports have varied. In April, the Federal Government's workers' compensation scheme Comcare was exposed as requiring substantial changes in almost every area, with no less than 137 recommendations to address performance, governance, funding and legislative anomalies.

While the curtain on Comcare's failings was lifted, reports from several other jurisdictions illustrate that keeping their workers' compensation rate competitive with other states means that any change to benefits will always be on the conservative side.



Queensland is a good example. Despite insurers' claims they could bring competition and innovation to the state's workers' compensation scheme, a report in May found that far from requiring a root and branch overhaul, WorkCover in Queensland is meeting its objectives and compares well to other jurisdictions.

Definitions of what injuries are covered will stay the same, as will workers' ability to claim under common law if they suffer following employer negligence.

The report found WorkCover is financially viable, enjoys an excellent funding ratio and the best return-to-work rate in the country at 98%.

Despite handling more workers' compensation claims than any other state in Australia, average premiums in Queensland are the second-lowest in the country.

Meanwhile, a review of Victoria's workers' compensation scheme WorkCover has recommended an increase in self-insurers' contributions.

The Essential Services Commission review argued self-insurers such as Woolworths, Coles and Qantas, which manage their own staff claims and do not pay premiums, benefit from WorkCover Authority activities such as advertising, and should therefore pay more. A grab for cash or a fair assessment? You be the judge.

In March this year, WorkSafe Victoria returned a profit for the six months to December 31 as workplace injuries fell to a record low.

In the ACT, a record number of accidents in the construction industry forced WorkSafe ACT to recommend an increase to workers' compensation premiums in that sector.

The average premium across all industries will hold steady at about 2.5% of wages next financial year, but for jobs such as bricklaying, roofing and concreting, the suggested rate is 11.89%, due to the Territory having Australia's second-worst record for serious injuries.

Meanwhile, continued wages growth has kept the cost of workers' compensation down in Western Australia, with WorkCover WA reducing its recommended premium rates for 2013/14 to 1.668% of total wages, down slightly from 1.691% last year.

Workers' compensation is a difficult and complex area to deal with, thanks to every state and territory going its own way. But it's also something you have to get absolutely right. If we can assist you in finding your way through the maze, please feel free to contact us.

Risk is everyone's problem

The insurance industry revolves around the concept of risk. What we probably don't say often enough is that the success of your own business is deeply tied up with how you deal with risk.

Risk is defined as "a probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through pre-emptive action".

So it isn't just about understanding the hazards, but also how to prevent them and how to protect against the consequences.

While large corporations have risk managers with a fine understanding of the occupational health and safety laws or engineering or environmental risks, for example, most smaller companies rely on their managers to understand the company's particular risks and do something about them.

Which can leave out a large contingent of "risk managers" who live

with hazards large and small every day – from the apprentice on the shop floor to the managing director, everyone should see themselves as a risk manager.

Tidy workplaces reduce small hazards that can nonetheless injure people and cause big problems. Using the correct equipment to do a job prevents accidents. So does refusing to compromise on safety. If the equipment can't be operated safely, it shouldn't be used. Near enough really isn't good enough. They're all mantras that help to keep people safe.

And they work. Companies where risk aversion is part of the company's culture have fewer accidents. And when there is an accident in a safety-conscious workplace, the chances of catastrophic damage – to people or equipment – is minimised.

There's another benefit of having a risk-averse company culture you may not have thought about. Lower accident rates place companies on

the lower end of the risk equation, and safe performance over time is something that insurers look for when considering an insurance proposal or a claim.

When you do have an accident – and despite your best efforts it can happen – our representations on your company's behalf to the insurer will be more likely to result in your risk assessment being unchanged and your premium being protected when the policy is renewed.

That's just one of the many benefits of having an insurance broker in your business life. Our training and experience revolve around the management of risk and the transfer of the financial burden from your company to the enormous global reserves of the insurance industry.

We can help you identify the physical hazards around your workplace, and we can also help you understand the "invisible" risks you face – the unexpected and often the unknown risks that can trip you up and take a huge financial toll on your company.

These include everything from the risk of a trusted employee stealing money to the safety performance of staff when they're working out of sight of the boss and his eagle eye. Consider the financial toll of a lawsuit for defective manufacturing, or an injury suffered by a third party on your premises.

The risks of everyday business life might seem vast, but the ability of the insurance industry to cover those that affect you is equally huge. Talk to us about how we can help you identify the risks you face and how we can help protect you against them.

WARNING

**WATCH
YOUR
STEP**

Would you like a lawsuit with that?

The “hot coffee” case, which pitted Stella Liebeck of Albuquerque in New Mexico against the might of McDonalds, was one of the most famous product liability cases of the 1990s.

Liebeck’s suit against the fast food giant became global news, in part due to its apparently brazen and frivolous nature.

But amazingly, Liebeck, who sought damages after spilling scalding-hot coffee on her lap, won her case and a \$US2.8 million payout.

The story was the cornerstone of late-night comedy material for weeks, and was seemingly illustrative of America’s deep aversion to personal responsibility.

But the 1994 case also resonated in Australia, particularly when the public liability crisis escalated in the 2000s following the collapse of HIH.

Now the case that spawned a thousand comedy barbs and a drop in McDonald’s stock – if not the temperature of its coffee – is playing out again in Australia’s court system.

In April, reports confirmed an Adelaide woman was suing McDonald’s after a cup of hot coffee spilled on her upper leg, causing serious burns.

Jessica Wishart claims she suffered multiple blisters and post-traumatic stress because staff at the Renmark McDonald’s franchise failed to properly fasten her cup’s lid.

McDonald’s has denied responsibility and says Ms Wishart failed in her duty to fasten the lid herself.

In May, the District Court reserved its decision to refer the case to the Magistrates Court, where Ms Wishart could be awarded a maximum of \$40,000 if successful, essentially ending her chances of a Liebeck-sized payout.

While Ms Wishart will not secure a payment worthy of an early retirement, the case has raised important issues around product liability insurance.

Product liability is usually included under a public liability



insurance policy, and is tailored for entities that supply customers or the public.

Any product used by a consumer – including an unsealed coffee cup – must be covered by product liability insurance.

It provides protection against the costs of a legal action and damages for personal or property claims arising after a product was sold or supplied.

As a financial safety net, product liability insurance is essential for businesses of all sizes.

For more information on product liability insurance, give us a call. We’re can advise you on the most efficient public liability insurance cover for your specific needs.

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