

AIS

Liaison

The AIS Insurance Brokers Newsletter

AUTUMN 2019

Premiums are rising – but your blood pressure needn't follow

As a small business owner, you will want to keep costs down as much as possible. There are expenses which you have total control over, such as holding off plans for an extra water dispenser or the latest high-end printer you've been wanting to get before the end of the financial year.

But there are of course exceptions. Some items are fixed, like insurance for your business. And here is the not so good news: it is going to cost somewhat more than what you have been used to paying.

Yes you heard that right. After many years in the doldrums, commercial premiums are going up.

According to the latest Australian Prudential Regulation Authority report, higher rates were the driving force behind the 6.2% rise in industry underwriting profit to \$3.5 billion last year.

The highly regarded Marsh Global Insurance Market Index says local rates for catastrophe and non-catastrophe risks rose so strongly that overall Pacific premiums jumped 16% in the December quarter.

Commercial rates strengthened 9% last year after gaining 3% in 2017, and are set to rise another 8% this year, the annual JP Morgan Taylor Fry General Barometer says.

The cause of all this activity after insurers spent much of the past six years holding premium rates steady isn't difficult to understand. With returns on their investments showing no sign of improving – a global problem – insurers have had to focus more on the sorts of losses they



are encountering on claims, and pricing premiums accordingly.

While competition between insurers serves to keep premiums lower, there's a limit, and they reached it about 18 months ago, when coverage for high-risk business began to constrict and premiums to rise.

And this upward trend is likely to continue across the market for a while yet. Insurers are feeling the pressure to boost their margins and get back to greater levels of profitability, and in such cases, competition tends to take a back seat.

The cumulative toll from a string of natural disasters stretching back to 2017 is finally denting capacity. What with insurers taking

a tough line on high-risk lines and walking away from unprofitable business, the conditions are ripe for rates to keep rising.

Which brings us to a most important question: what can small business owners do about the current environment? Plenty. It's a good time to take stock of your business, review your risk management process and see if your existing cover remains adequate.

With premiums all but certain to keep rising over the next year, it's more important than ever to ensure you have the best possible cover for your business at the best possible price. You can rely on us to achieve the most professional balance. So give us a call now.

The name of the game is Trust

A lot has been written about the revelations that came from the Hayne Royal Commission into Misconduct in the Financial Services Industry. What's not usually noted is the fact that insurance brokers – a significant sector within financial services – were not mentioned.

Like all parts of financial services, insurance brokers and their work were investigated before the formal hearings began. But no broker was summoned to appear before the commissioner for questioning and cross-examination.

Why? We can only assume the royal commission decided it wasn't necessary to dig deep or to "name and shame" insurance brokers or their companies in the way some insurers, bankers and other financial services practitioners – like mortgage brokers, for example – were.

Insurance brokers are already well regulated, professional in their dealings with clients and transparent in the way they work. The tiny number of complaints against insurance brokers that are handled by the official referee, the Australian Financial Complaints Authority, is testament to that.

And there's another reason, from our viewpoint. Commissioner Hayne had plenty to say about the need for industry participants to put the interests of the client before all other considerations. For some arms of financial services this was a big point to consider. For insurance brokers the interests of our clients are at the core of our work – our reason for being.

It's obvious that if we didn't put the interests of our clients first, we wouldn't last long in this business. Insurance is one of the most competitive industries in Australia, and experience soon teaches you that the open relationships you have with your clients are a precious personal and business asset.

So, in terms of our own professional work and your willingness to let us help you by advising and managing your risk through insurance or mitigation, it all comes down to one word: trust.

If our clients didn't trust us, our knowledge of risk and our ability to protect their assets against loss would be of little consequence.

And if they weren't willing to listen to our advice because they didn't think we had put in the work to understand their business and their ambitions for it, the chance of falling short in fulfilling our role would be increased.

Our role is to arrange insurance to remove risk, advise you about the best ways to minimise risk and assist you when you have a claim. As your business grows, it's our job to keep up with that growth. All this requires a relationship that's mutually transparent, candid and trusting.

You might not always like the premium that comes with the insurance policies we recommend, and we sometimes might have to give you risk advice that you don't necessarily want to hear. But our specialised knowledge of insurance and risk and our determination to get it right means you can always be sure we're acting in your best interests.

You can trust us to be there when you need us. You can trust us to keep your assets as secure as is humanly possible. And you can trust us to always be straight and honest in our dealings with you.

As leading Silicon Valley entrepreneur Scott Weiss put it recently, "Trust leads to approachability and open communications".

It's something that's good for everyone.



We can help you avoid SME growing pains

Starting a business and seeing it become successful is a triumph to be savoured, but new challenges quickly emerge as owners look toward further expansion. The more you grow, the more diverse are the risks you face.

Business owners celebrating early success are typically involved in every part of the process and have their finger on the pulse as the enterprise finds its feet and gains traction.

As profits flow, the next stage may involve adding extra staff to take care of various functions, but the owner will likely still have close oversight and know exactly what is happening across the enterprise.

Further expansion may trigger the need for larger premises and require the addition of specialists across IT, accounting, other support areas and in day-to-day operations.

At this point owners may have to dedicate themselves to the overall strategic direction and focus on their areas of greatest expertise as more responsibility is delegated to staff within the team.

Insurance considerations also come into play as previous policies may no longer be adequate and new areas requiring cover emerge.

A larger office will trigger the need for updated policies, because additional equipment may have been purchased, staff added or activities diversified. Business interruption is often overlooked, but it can be devastating for operations to



Tough going: growing a business can be stressful – but we can help

be out of action for weeks at a time.

Cyber threats, intellectual property and reputation risks may need to be considered, while an expanding workforce means updates to workers' compensation policies.

This is particularly troubling for Australia's largest business sector – small to medium enterprises or SMEs.

Despite some uncertainty about how to define them, or the even the boundaries between micro, small and medium-sized enterprises, SMEs aren't necessarily large, but they sure are dynamic.

The Australian Bureau of Statistics defines a small business as one that employs fewer than 20 people and a medium-sized enterprise as having between 20 and 199 people, but there are significant differences in the way an enterprise will operate within those broad boundaries.

SMEs that have expanded often note a number of key points where it becomes clear the nature of the business and its character has changed as it transforms to a larger operation with wider horizons.

Some owners will elect to remain at a smaller level,

but for those with larger ambitions, navigating growth pathways, judging how much to invest and whether the demand will be there can be daunting.

While expansions will typically take owners into new territory, we are well and truly familiar with the issues that emerge. We exist to provide expert advice to mitigate risks as your enterprise grows.

It's well worth tapping into our knowledge and having a broad discussion about the business and future plans. Give us a call so we can arrange to meet.

Flood insurance: a bridge over troubled waters



Rising threat: floodwaters can cause serious damage

After floodwaters surged through the north Queensland city of Townsville earlier this year, many businesses were in for a nasty shock.

As the floodwaters began to recede and owners began to focus on recovery, a “significant number” of SME businesses found they had failed to arrange flood cover and were therefore at serious risk of having their insurance claims denied.

As the owner of a small business, you need to know if your property is at any risk of being flooded. It’s an issue that needs careful consideration.

First of all, be clear that you understand what flood cover is, and how it differs from

cover for storm damage.

Up to 2012 insurers defined flood in different ways, resulting in flooded households in the same street being treated in different ways. One house might be completely covered by its policy, while its next-door neighbour might get nothing.

But following the 2011 Brisbane floods, the insurers agreed with a standard definition that says flood is “the covering of normally dry land by water that has escaped or been released from the normal confines of any lake, river, creek or natural watercourse, whether or not altered or modified, or any reservoir, canal or dam”.

For home and contents cover,

flood cover is usually included, although some insurers enable customers to opt out.

But for business insurance, the opposite is true. Policies generally don’t include flood cover and it has to be specifically requested.

Problems arise in areas that are flood-prone, where the cost of cover soars. Anecdotal evidence in Townsville suggests in some cases adding flood doubles the premium.

But putting the concern to the back of your mind and hoping for the best isn’t the answer. Recent studies have demonstrated that as our climate changes, natural catastrophes such as the Townsville floods are

becoming increasingly likely.

Not only are extreme events becoming more common, they’re also becoming more severe.

Weather systems are travelling across the landscape increasingly slowly, dumping vast amounts of rain on affected communities.

Old assumptions about risk and flooding likelihood need to be reassessed, and it pays for you to be aware of your own particular flood risk.

We have found that it isn’t always clear after a flood whether damage has been caused by flood or stormwater. This can lead to lengthy investigations by hydrologists, which can in turn delay the payment of a claim.

Far better to have the peace of mind that flood cover can bring, than be left worried and confused after an event.

Talk to us about your flood risks, and consider the latest local government flood mapping carefully.

If the cover looks unaffordable – don’t panic. We can help you consider all available options and there may be a way to physically reduce the risk without relying solely on insurance. Make an informed decision now to avoid struggling to keep your business afloat later.

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