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INSURANCE TODAY

Winter 2009

PREPARING FOR A PANDEMIC

The looming threat of swine flu this year has prompted many of the world's biggest companies to take a fresh look at how prepared they are for a pandemic.

For businesses of all shapes and sizes it makes a lot of sense to do likewise.

With up to 50% of the workforce laid low at home – which is what the Australian Government expects a pandemic would mean – the effects could be disastrous for businesses which haven't thought through the risks and made contingency plans.

The dimensions a pandemic could take are unpredictable. The so-called "Spanish flu" of 1918, which claimed an estimated 50 million lives, is often held up as the standard by which pandemics are judged.

But the world has changed a lot since then. Medicine is better, and quarantine measures are more advanced.

Worst-case scenario models these days take those factors into account.

The Risk Management Institution of Australasia advises businesses to focus on facts, not hysteria, but poses some sobering questions.

What impact would major absenteeism have on your business?
What about staff shortages at suppliers or customers?

A good place to start in preparing your "Plan B" is talking to us. That way you can double-check what to expect from your business interruption policy and other cover for your business in the event of a pandemic.

You might be surprised to learn that many business interruption policies these days have pandemic exclusions, often linked to the official government list of quarantinable diseases. You might not be covered.

This has become the reality in Australia and around the world, and it's hardly surprising when you think about it.

Insurance is about managing risk, but that becomes an academic



exercise if the risk is so great that policies become too expensive for everyone.

And there's no denying that pandemics present huge global risks.

Of course, they take their place alongside business interruption risks that can be realistically covered by insurance companies. In today's tough economic climate, where capital is a key issue, ensuring the continuity of your business is absolutely essential.

So, are you prepared for a pandemic?

It's worth thinking about. For example, have you planned for a

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second and third wave of staff absenteeism as well as the first? What would you do?

Have you considered training staff in alternative roles and, where appropriate, making arrangements for staff to work from home?

Is all your critical information captured and stored where it can be easily accessed?

Have you thought about alternative childcare arrangements for essential staff, given that childcare centres may close?

The bottom line is, "Don't panic". Planning for a pandemic means that your business is subjected to the least possible disruption.

Few would argue that being prepared for the unexpected is a cornerstone of good business practice. So talk to us about how your insurance policy can help secure your assets.

KEEPING ON YOUR FEET



A fortune up in smoke: up to 90% of small business plant and equipment is underinsured

Property insurance is essential, especially when there's a global recession biting. Yet it's surprising just how much underinsurance exists among small and medium-sized enterprises (SMEs).

Property insurance covers policyholders for the loss and damage of buildings and contents.

When making sure your buildings, plant, stock and wages are protected there are a range of options that must be explored.

Property insurance policies usually offer cover for industrial special risks including fire and extraneous perils, malicious damage, burglary and theft, money loss, damage or destruction, storm and water damage, loss of profits, computer damage or theft, and glass breakage.

There are also policies catering for specific industries, such as construction – covering material damage and liability insurance specific to new building works and existing premises undergoing

renovation – or engineering, which can cover machinery against breakdown and boiler explosion.

To make sure your insurance policy is effective you need to identify the correct asset valuations. It won't matter how broad your insurance policy is if the sum insured isn't right, as this determines how much loss will be payable.

Also, if you underinsure your assets, then your insurer is likely to pay a proportionately reduced claim settlement – this is known as an average or co-insurance condition.

Research by the Insurance Council of Australia (ICA) shows just how widespread underinsurance is among Australian SMEs.

According to ICA, 50% of small business buildings are severely or significantly underinsured, while 20% are not insured at all, and 90% of small business plant and equipment is severely or significantly underinsured.

Underinsurance among SMEs is driven by a variety of factors, including unaffordability – particularly in Victoria and New South Wales where fire services levies and taxes can increase premiums by up to double. Lack of education about insurance and how it operates is also a factor.

But during these difficult economic times, there is no scope to risk losing your business and your income due to underinsurance. Don't wait until something happens to you.

And make sure your cover allows for future cost increases. If your property is destroyed you need to consider the cost of replacement, the time and expense involved in managing potential disputes and the local council approval process. You should also calculate the sum insured so that it takes into account the future cost of materials, labour, products and any clean-up, including possible asbestos removal.

While insuring buildings is a given, you cannot overlook the protection of your income. If you have secured the income of your business, then even in bad times after a large loss you can rent elsewhere or rebuild.

Talk to us today to make sure you are fully covered if a loss occurs, and able to survive whatever comes your way.

INSURANCE TAX: A BATTLE WORTH FIGHTING

As your insurance broker, we don't normally get involved in campaigns to change government policies. But we are right behind a campaign by the National Insurance Brokers Association (NIBA) in its efforts to stop world-record levels of tax on insurance policies from making insurance an expensive option rather than an economical essential.

After years of lobbying state governments on the issue, NIBA is now taking the issue to the insurance-buying public that elect the decision-makers. It has launched a campaign to educate ordinary Australians on state insurance taxes by distributing discussion papers entitled "What You Need To Know About Taxes On Insurance".

It's a timely move. On May 15 another round of fire services levy increases lifted insurance taxes in Victoria and New South Wales to the point where some policyholders now pay more than a dollar in tax for every dollar in premium.

The paper is a frank discussion about how GST combines with stamp duty and the fire services levy to increase premiums for clients. In other states the fire services are funded in other ways – mainly through local government rates. But all state and territory governments could do more to help make insurance affordable to everyone and thus reduce the likelihood that people's lives will be ruined when disaster strikes.

We don't accept that Australia should be home to the highest insurance taxes in the world and we're striving for change.

In the latest round of increases, New South Wales has raised the fire services levy on commercial premiums from 36% to 40%, while the levy for householders moves from 19% to 22%. Rates in Tasmania remain unchanged at 28%.

The Victorian levy from July 1 is applied at 68% of the premiums for businesses in country Victoria, up from 63%. In metropolitan areas the levy on commercial premiums is now 51%, up from 48%.

For householders in country Victoria the figure has increased to 26% from 24% and to 21% from 20% in urban centres.

It means a small business in country Victoria with a base premium of \$1000 will pay an extra \$1032.80 in taxes – made up of 68% fire services levy (\$680), 10% goods and services tax (\$168) and 10% stamp duty (\$184.80) on top of the full amount.

The states apply those taxes cumulatively in a "tax-on-tax-on-tax" approach that flies in the face of the fundamental principles of good taxation.

Instead, NIBA advocate's a system similar to Queensland, Western Australia and South Australia, where funding for fire services comes from local council rates. In the Australian Capital Territory



A fair deal for all: we support a campaign to lower taxes on insurance

and Northern Territory fire services funding comes from consolidated revenue.

That doesn't mean underinsurance doesn't exist in places like Western Australia, Queensland and South Australia, because stamp duty and GST can still inflate a premium from \$850 to more than \$1000.

Even in states where there is no fire services levy, stamp duty is added on to the base premium after the GST is added, so the state government takes the maximum financial benefit.

But by funding the fire services through council rates, these governments at least ensure everybody pays their fair share, because under the levy system people who don't insure don't contribute.

When premiums are inflated by tax, it is clear that fewer clients choose the appropriate level of cover. Consider the Victorian bushfires, when it was revealed that 30% of the destroyed homes weren't insured at all. We believe a reduction in insurance taxes can help turn that around.

When WA abolished the FSL in 2002, home and contents premiums dropped 13% in the next year while commercial rates fell 15%. It's a trend that has not gone unnoticed, with a royal commission, two state government reviews and a number of commissioned studies recommending insurance taxes be reduced or removed and the levy system replaced with charges through council rates.

State governments don't seem to be listening, and they only will when insurance-buyers let them know they're not happy with the situation. If you'd like to know more, go to www.niba.com.au/tax.

THE COLD HARD FACTS ABOUT WINTER

Wild weather is a feature of the variable Australian climate and no season is immune from its effects.

And while it is true that our more moderate winter climate is unlikely to bring about a \$7.6 billion damages bill of the kind Winter Storm Kyrill created in Central Europe last year, cooler weather can still make its presence felt around Australia.

Already this year a cold snap in Melbourne brought winds of more than 100kmh and heavy rain across Victoria, toppling trees and prompting 450 callouts by the State Emergency Service. In the Melbourne suburb of Malvern, tumbling bricks brought down shop awnings and scattered debris across a city street.

In northern New South Wales and Queensland, May flooding brought 9500 claims worth more than \$39 million, according to early estimates.

As winter begins and the temperature gauge plummets, there are a number of other risks to look out for. Research by Queensland fire authorities reveals heaters cause one in 10 fires in homes. More people die in house fires between June and September than at any other time of the year.

It's not hard to see why. Dryers, fireplaces and braziers clock up the overtime over the winter months, and the risk rises exponentially where these appliances are misused, faulty or left unattended.

And don't forget that long winter nights give burglars the chance to operate under the shadow of darkness, so make sure your homes and businesses are covered with adequate insurance and security protection.

The onset of winter is also a good time to ensure your insurance policies are up to date, covering areas such as property and liability and business interruption insurance. Building and contents policies are an obvious focal point. Have you added plant and equipment in the past few months without thinking about increasing your cover? Now is the time!

On the road, you should check that your commercial and domestic motor insurance policies are appropriately protecting your vehicles against the increased risks posed by wet and slippery roads.

And if you're going on holiday to the snow – winter is a time for sports enthusiasts to indulge in pursuits such as skiing and snowboarding, after all – travel insurance is one of the most important things to organise. You're at much greater risk of breaking a bone in the snowfields than you are when you're lying on a beach!



Cold, wet and dangerous: winter poses new risks for everyone

DISCLAIMER: The information in this publication is of general nature as a service to clients and other interested parties. The articles included herein are not intended to provide a complete discussion of each subject and should not be taken as advice. While the information is believed to be correct, no responsibility is accepted for any statements of opinion or any error or omission.

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.

