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INSURANCE TODAY

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DEALING WITH CLIMATE CHANGE



Hurricane woes: Rita bears down on the US coast

The international reinsurance industry – think of them as the insurers' insurers – has forged a reputation for itself over the past couple of hundred years as being deeply conservative. Reinsurers don't tend to seek the limelight. Yet it's the reinsurance industry that was among the earliest groups to fund research into global warming, and one of the first to get involved in warning governments that something had to be done.

The rash of storms this year in the Gulf of Mexico and along the eastern seaboard of the United States – a record number of 13 had formed and hit land by early November – is a sharp pointer to the fact that this is what the reinsurers have been warning about.

No wonder. The insurance industry paid out about \$US92 billion (\$124 billion) in losses from weather-related natural disasters in the 1990s. The hurricanes that have hit the US coast this year will cost the insurance industry up to \$US50 billion (\$67.4 billion) by the time all the claims are in. While the Katrina payout is expected to eventually bring the present softening of some market sector premiums to an

end, the destruction wrought by hurricanes Katrina, Rita and Wilma are all timely reminders of how devastating natural disasters can be.

Increasingly, climate change has seen insurance risks become more complex and concentrated.

A new study co-sponsored by global reinsurance company Swiss Re has found climate change – which is now accepted by most governments as a fact rather than a hypothesis – will significantly impact on the health of humans and ecosystems, and these impacts will have economic consequences.

The research was done by the Centre for Health and the Global Environment at the prestigious Harvard Medical School in the United States, and was also sponsored by the United Nations Development Program.

The report says heatwaves – which have caused more fatalities in Australia than any other natural weather hazard – are becoming more intense and more prolonged.

Swiss Re says 27% of coral reefs are dead and 60% are in danger. It says further ocean warming and disease could cause reefs to collapse worldwide within several decades.

The case study on agriculture says outbreaks of pest, fungi and increased growth of weeds require more use of pesticides which threaten the health of farm workers and consumers. Pests would also cause yield losses as high as 50% for tropical crops such as sugar cane.

Infectious and respiratory diseases are another area that Swiss Re says will be very expensive to the Australian economy. Asthma treatment alone costs Australia about \$830 million a year.

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PUBLIC LIABILITY: GETTING MORE FOR YOUR DOLLAR

Public liability insurance is vital for maintaining Australia's rich sporting and community culture. Thanks to law changes by state governments over the past few years, cheap public liability insurance cover is once again readily available.

Recent figures released by the Australian Prudential Regulation Authority show public liability insurance premiums have now stabilised. Premiums rose by up to 100% for some insurance-buyers after the collapse of HIH Insurance and the September 11 attacks in 2001.

Public liability insurance is vital for organisers of community activities, as it provides financial protection for organisations sued for negligence by individuals who suffer any kind of injury attending events or while visiting their property.

Prior to 2001, most types of insurance cover were cheaper and more widely available. The capital crunch that followed the World Trade Centre disaster in 2001 had a severe impact on public liability premiums. Clubs and organisers of events had been paying artificially low rates provided by insurers who were, in many cases, relying on their investment income alone to provide a return.

Falling investment returns had a severe impact on the availability of capital for insurers, at the same time as reinsurers raised their charges to the insurers. The result was a "perfect storm" that forced insurers around the world to rapidly raise their premiums.

When it came to public liability premiums, many organisations and smaller companies found they couldn't afford them. Community events with long-established traditions were threatened, and in some cases had to be cancelled.

For some small businesses, the impact was horrendous. People who ran businesses that contained a relatively small but measurable level of hazard – horse-riding stables, for example – were badly hit.

Some not-for-profit companies and recreational providers that were required to hold public liability cover as a condition of their

operating licences were forced to close their businesses.

An underlying problem with public liability quickly became obvious once the insurers began to charge the "technically correct rate" for premiums. Courts in most states – but most notably New South Wales – had been ordering massive compensation payments to injured people. It's not our role to comment on whether such payouts were justified or necessary. But when "technical premiums" calculated to cover the cost of claims were applied to public liability, steep rises were inevitable.

To counter the rising public clamour for affordable liability insurance, state governments and the Federal Government decided to reform the various tort laws in a bid to put limits on lawsuits.

The reforms have restored balance to public liability premiums, and ensure the rights of those entitled to compensation are protected, while providing financial security to the community through more affordable – and readily available – public liability insurance.

Another aim of the reforms was to reduce the level of general damages being paid for relatively minor injuries, while maintaining full compensation rights for those who sustain serious and catastrophic injuries. This included protecting people's rights to claim for economic loss for hospital, medical, rehabilitation and related expenses, loss of earnings and other out-of-pocket expenses, regardless of the severity of the injury.

From December 2003 to December last year, prices for public liability insurance in New South Wales, Western Australia and South Australia have dropped 10.7%, 7% and 18% respectively.

Many companies are now also benefiting from greater levels of cover and additional benefits in their policies. More companies and organisations also now take out adequate cover – which is good news for the public.

If you'd like more information about public liability insurance, don't hesitate to give us a call.

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Continued warming and more extreme weather patterns are likely to have a marked adverse effect on the distribution and quality of drinking water. Water shortages and water-related illnesses could become more widespread and more frequent.

And it found that the impacts of climate change are also likely to have consequences that overlap in areas such as health, the economy and the natural systems on which we depend.

Whether the Swiss Re study proves to be true in all respects will only be revealed over time. What it does illustrate, however, is that the rise in extreme weather-related events will increase the need for appropriate risk management measures and a careful appraisal of the levels of insurance cover.

There's little we can do to prevent hostile weather. But people can minimise the physical impacts with appropriate planning, and insurance can help to rebuild the business or home after the worst happens.

BUSHFIRES: PROTECTING YOUR HOME AND OFFICE

It's bushfire season again, and with unusually low levels of rain during the winter months in many parts of the country, it's time to do a little risk management and be prepared. Homes and businesses can do a great deal now to minimise the dangers of fire.

As bushfires in recent years have shown, such disasters can take place in developed urban areas almost as easily as they can in the country.

Of course, people and businesses in country areas are usually more prepared – and far more aware – of the dangers of bushfire, but the hazard exists all around us. Country people know that a drought in winter and spring is a strong sign of a tough bushfire season ahead. Long spring droughts dry out the bush and make it especially flammable.

Another signal is very hot days between September and December. In dry years, there are usually two or three potential “blow-up” days when extremely hot, dry and windy weather creates the potential for uncontrollable wildfires. These days can sometimes extend into January or February if drought conditions continue.

Fine twigs and leaves in the bush build up to alarming levels in many areas. It usually takes at least two to three years after a fire has gone through an area for the undergrowth and twigs to build up enough fuel to support a fire. If the litter is more than 3cm deep and the shrubs are taller than one metre over the whole area, then it will support an intense fire on a bad day.

Insurance and fire risk experts are always making the point that one of the best ways to minimise the risk of losing buildings and possessions to a bushfire is to position the buildings in the right place. Finding out what areas are exposed before you buy land is important. Your house or business should be designed for self-protection and obviously with fireproof materials.

Property-owners should stay alert for the conditions that make wildfires likely and watch or listen to the weather forecasts on the television or radio.

Fuel reserves shouldn't be excessive on your property. Keep undergrowth cut well back and take a walk around the property to check out the hazards. Do you have flammable equipment like firewood or, say, plastic crates stacked up against the building? Do you have adequate fire-fighting equipment, like hoses and buckets? Do you have an adequate and easily accessed water supply?

Are the buildings secure against flying embers? Is the guttering clear of leaves? In a bushfire, buildings often catch fire from flying embers that lodge in or under them. You can improve the fire resistance of your home and/or business premises with some simple fireproofing. Close up the eaves so embers can't lodge



Fiery end: it's easy enough to maximise your fire protection

under them, install wire screens and close sub-floor areas.

Install a separate water tank and pump in areas with low water pressure and install hose fittings that your local town or bushfire brigade can connect to.

If you live on the edge of the bush, support a co-operative community protection plan with the fire authorities.

While you're considering the fire precautions you need to take, you can also take the time to consider the overall security of your home or business. After all, it's quite likely that you'll be on holiday – and therefore away – for at least some of this summer.

A risk management strategy before the office shuts down is clever thinking and a walk around the workplace to consider its security weak-points might save you hassles later on.

The major threats to an empty office or worksite normally come from burglary, natural catastrophe or equipment malfunction.

Proper security, including adequate locks, lights and alarms, will assist in keeping burglars at bay.

It may be wise to engage security patrols while you're away. And is there any equipment in your workplace that could malfunction and cause a fire?

Lastly, to enjoy your summer break and be assured that your assets are protected and will be there when you return, check that your insurance policies cover you for any unforeseen events. That's where we come in. If you're in need of help or advice, just give us a call.

HOW TO CUT PREMIUMS: CUT 'HIDDEN' TAXES

Victorian and New South Wales insurance-buyers fork out as much tax on their insurance policies as they pay on cigarettes, gambling and alcohol – the so-called “sin” taxes. This makes residents of the two states the highest-taxed in the world when it comes to insurance.

Insurance-buyers don't just need to pay state taxes on top of their base insurance premiums. They are also forced to pay indirect taxes like the fire services levy, stamp duty and GST – which in some cases is almost equal to the base premium.

Businesses in Victoria already pay up to 82.5% tax on their insurance premiums. This has been identified by a recent report by the Centre for International Economics as the highest insurance tax rate in the world.

Taxes on base premiums in other states are up to 22% in South Australia, 21% in Western Australia and 18% in Queensland.

The insurance industry has campaigned for more than a decade for state and territory governments to reduce insurance taxes. They have had some success, with South Australia and Western Australia in recent years switching their fire services funding to a more sustainable system linked to property rates. In both cases, the switch to a different system has resulted in lower premiums.

Experts say the only way governments in New South Wales and Victoria will pay attention to the issue is if the actual buyers of insurance start to understand the issue and take their own action.

High taxes can act as a disincentive to businesses and householders to insure adequately. In some areas, up to one in three homeowners are underinsured or not insured at all. The majority of these people cite the cost of insurance as the major deterrent in purchasing adequate cover.

As the Canberra bushfires in 2003 showed, underinsurance can be a second disaster for Australian families already reeling from the loss of their home and personal possessions.

Earlier this year the Victorian Government introduced the Emergency Services Act, which creates yet another burden for Victorian insurance-buyers. Under the new legislation, self-insured businesses will have an additional levy imposed for fire services. This will be calculated on the amount of the organisation's deductible – the amount the insured company elects to self-insure – over \$10,000. This will cost major companies as much as \$1 million more. There was no industry or public consultation on the legislation before it was introduced.

It will require brokers and insurers to estimate a fire services levy for the self-insured portion of a property policy. This will be based on a “notional premium” for companies that have deductibles of \$10,000 or more.

Our representative organisation, the National Insurance Brokers Association, has been highly critical of the measure, saying it shows a lack of understanding of how risk transfer works, acts as a disincentive to companies with effective risk management programs, and is probably impossible to implement anyway.

If you would like to have your say on insurance taxes and make a difference on the issue – or if you'd just like to know more – give us a call.

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.

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