



# Insurance Insight

Insurance Industry News and Views from EBM

November/ December 2008

## Welcome Message

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With the festive season upon us, we give you a warm welcome to the fourth edition of *Insurance Insight*.

As the year draws to a close, there is little doubt 2008 will be remembered with little affection by investors, both here and abroad. In recent months we have experienced continued uncertainty with the global financial crisis having an increasingly noticeable effect on our economy.

The Australian stock market has sunk to its lowest since 2004, and business confidence has reached near record lows. One tangible measure of the downturn was the backlash against ballooning executive pays some company boards faced during the recent reporting season.

It's a good time to remind ourselves of the cyclical nature of the markets and that history tells, in time, it will recover and perhaps even surpass its previous levels.

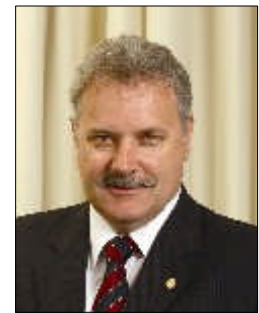
For families in Queensland it's not just the market that's been causing concern – in parts of the State a different type of dramatic loss has been felt. In this edition we look at the recent storm activity that has affected south-east Queensland and the projected insurable cost of the storms.

We'll also look at the impact the stunning collapse of ABC Learning Centres could have on corporate landlords and highlight EBM's unique StudentCover policy which provides affordable and substantial cover for school-aged children.

As always we are keen to hear your thoughts and ideas for issues you would like to see covered in *Insurance Insight*. Please email your suggestions to [marketing@ebminsurace.com.au](mailto:marketing@ebminsurace.com.au). If you would prefer to opt-out of receiving future newsletters simply click on the link at the bottom of this email.

We hope you enjoy *Insurance Insight* and look forward to providing further industry updates on news and events in the New Year.

**Jeff Adams**  
Managing Director



## First rain, now claims flood Queensland

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On Monday 17 November as Queenslanders began counting the cost from devastating storm activity, Brisbane was officially declared a natural disaster area.

Residents in the flood ravaged areas outside Brisbane called it the worst thunderstorms in 25 years as flash flooding killed a 20-year old man, tore down powerlines and peeled rooves from homes.



According to the Insurance Council of Australia, as of 26 November, approximately 16,000 claims had been lodged with Australian insurers relating to the storm damage. Together these claims represent an insurable value in excess of \$140 million.<sup>1</sup>

It is expected this total could rise given the size of the area affected, with homes as far north as Redcliffe affected by the wild weather.

In the days following the storms, Energex, one of Queensland's major power suppliers estimated more than 350,000 homes and businesses through south-east Queensland were affected by storm-related power interruptions – many of these being hit two, three or four times.<sup>2</sup>

With so many businesses and homes affected, EBM's Managing Director Jeff Adams advised anyone impacted by the severe weather to make contact with their Broker or insurance company immediately so their claims can be assessed as quickly as possible.

“Obviously when communities experience extreme weather conditions such as this, there is an influx of claims to be processed and a lot of anxiety for those affected,” Mr Adams said.

“It's important to remember that early contact with insurance providers will help make sure claims are lodged, and can be processed as quickly as possible.

“For EBM policy holders, our staff members are available to provide advice and support to assist our customers to deal with this situation.”

Severe storms cost Australia approximately \$284 million each year, representing just over a quarter of the average annual cost of all natural disasters in Australia.<sup>3</sup>

“Instances like the recent storms in Queensland highlight just how important it is for individuals and businesses to maintain adequate protection for the homes, premises and assets.

Enquiries relating to claims can be made by calling 1300 INSURE (1300 467 873) or to [ebm@ebminsurace.com.au](mailto:ebm@ebminsurace.com.au).

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<sup>1</sup> Source: Insurance Council of Australia, South East Queensland Storms Data, Updated: 12:00pm, 21/11/2008.

<sup>2</sup> Source: Energex, Storm Update: Energex crews restore power after another night of wild weather, 21/11/08.

<sup>3</sup> Source: Australian Bureau of Statistics, Yearbook Complete, 2008, released: 7/02/2008.

## Landlords' risk no child's play

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The potential closure of hundreds of ABC Learning Centres is not just a concern for worried parents, but also for commercial landlords who may suffer as well.



The company, which was Australia's largest childcare operator, was placed into the hands of administrators Ferrier Hodgson and bank-appointed receivers McGrathNicol in November after a prolonged struggle to keep the company financially viable.

Soon after receivers were appointed, the Federal Government was forced to inject approximately \$22 million into the stricken company in an effort to keep the company's 1,040 childcare centres open and allay the fears of worried parents and staff.

Announcing the cash injection, Deputy Prime Minister Julia Gillard confirmed that preliminary data indicated that under the ABC business model, around 40 per cent of ABC centres are unprofitable.<sup>4</sup>

But while this move by the Federal Government secured the future of the centres until the end of 2008, the future of many centres looks doubtful.

On 26 November, McGrathNicol, wrote to ABC staff and the parents of children who attend the centres confirming that 656 ABC Learning centres that will continue to trade as normal in 2009.<sup>5</sup>

The future of the remaining 384 centres is still in doubt and the viability of their lease holdings is of increasing concern to commercial property investors who own the sites.

Landlords are faced with the possibility of their tenants closing their doors. Alternatively, landlords may face the unpalatable option of making steep cuts in the rent they charge in an attempt to keep the centres viable.

The prevalence of commercial tenants defaulting on leases is expected to increase, with recent Australian Securities and Investment Commission figures indicating the number of companies nation-wide that entered external administration in September was up by 55 per cent on the same month last year.<sup>6</sup>

With the corporate landscape continuing to prove unstable for many investors – both large and small – risk management and professional advice on risk transfer and retention have rarely been more important.

EBM continues to provide individualised insurance for major businesses and corporations throughout Australia.

For more information about Rent Default insurance for commercial investment property owners, call 1300 INSURE (1300 467 873).

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<sup>4</sup> Source: The Hon Julia Gillard MP, ABC Radio National Life Matters Transcript, 11/11/08.

<sup>5</sup> Source: Australian Government, mychild.gov.au, ABC Learning Update: 26/11/08.

<sup>6</sup> Source: Australian Securities and Investments Commission, 2008 insolvency statistics.

## Jeff Adams on EBM's past and future

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After almost 23 years with EBM Insurance Brokers, Managing Director Jeff Adams has seen many changes, in both the company and the industry.



From his early days working at Royal Insurance in Western Australia, Jeff has established a respected career in the corporate broking industry. He has been a key driver in EBM's growth to become Australia's largest privately-owned insurance broker.

And while opportunities from other parts of the country presented themselves over the years, he still admits to being firmly entrenched in Western Australia.

"I remember having a meeting Alan Bishop (EBM Executive Chairman) more than 20 years ago. He was talking about a few opportunities but at the time I wasn't considering entering the broking industry," Mr Adams said.

"But talking with Alan, learning what the company was about and the opportunities there were to develop it, I found his enthusiasm, passion and commitment infectious and made the decision to join the journey.

"Back then we had one office in St Georges Terrace in Perth's CBD and a turn over of just \$4.5 million.

"In a short amount of time we relocated to nearby West Perth, bought larger premises and began developing the business. Today we have a turnover of \$125 million and 140 staff across nine branches throughout Australia."

Helping to build EBM's core business model, Mr Adams was instrumental in the development of new and innovative products the company developed and promoted. A look through EBM's current product list reveals he was a key architect in many of the most successful products marketed today.

However he cites the development of the company's RentCover (Landlords Protection) suite of policies and the establishment of the RentCover division as his most rewarding challenge.

"We began RentCover around 1991," he said. "Having identified a gap in the market, we developed the first product, released it and were very pleased to see it achieve strong growth in the early years.

"By responding to what our customers wanted, RentCover quickly established itself and today it has an annual turnover of approximately \$18 million which is very pleasing to think about that in relation to where it came from."

Although policy development is a major aspect of Mr Adam's role at EBM, he is also a key member of the company's corporate broking division and enjoys the challenges corporate insurance presents.

"People often ask me what broking at this level is like and I use the analogy of football. Both are very competitive, and that's what I like about it," he said.

With the current level of economic uncertainty Mr Adams believes the corporate broking division will play an increasingly important role in the business over the next 12 months.

“Issues of directors’ liability, shareholder actions and an increase in business insolvencies are being faced by companies around the country,” he said. “And, we’ve already seen that reinsurers are looking to reassess their attitude to risk and in many cases, increase their costs which, combined with reducing investment returns, is likely to see a general increase in premiums in 2009 and possibly beyond.”

Looking ahead, Mr Adams believes that EBM is well placed to weather the financial storm, believing that as a privately-owned company, it has distinct advantages.

“Being privately-owned allows us to respond far more quickly when conditions change,” he said.

“EBM has always been focused on strong results and achieving organic growth. And, in challenging economic times such as this, we know that clients increasingly look for trusted and proven companies that they can rely upon – and that is what EBM represents.”

## Reinsurers expect growth as difficult times persist

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The dramatic destabilisation of one of the world’s largest insurance brands sent shockwaves through the global insurance industry and reaffirmed the depth of the global financial crisis.



Testament to the risks beset by the financial turmoil this year, one of the world’s top insurers – AIG – faced almost certain collapse before the US government launched a successful rescue package.

Recognising the risks inherent in the current climate, many insurers are now seeking more strategic protection of their own risk, taking a more prudent approach to risk management.

Known as reinsurance, a general insurance company will attempt to limit its own risk by using outward reinsurance arrangements. A company may enter into a number of reinsurance contracts to limit its risk where a reinsurer assumes a portion of the losses and related expenses.

With the financial crisis resulting in lower investment returns and increased pressure on primary insurers’ capital positions, many insurers are finding it increasingly difficult to support high risk exposure. As such, it is expected that an increase in demand for reinsurance will be seen in the coming months.

However as the availability, amount and cost of reinsurance depend on prevailing market conditions, with increased demand, it is likely that the rates of reinsurance will rise in the coming months.

Recognising this demand, Swiss Re, one of the world’s largest reinsurers recently told its shareholders that it is seeing increased demand from their clients for reinsurance policies.

In their joint address in the company’s *Third Quarter Report* this year, Chairman Peter Forstmoser and Chief Executive Officer Jacques Aigrain wrote, “Our clients face increasing financial pressure at a time when the loss impact of natural catastrophes is rising, and they are looking for further assistance and reinsurance support.”<sup>7</sup>

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<sup>7</sup> Source: Swiss Re, Third Quarter Report 2008, 4/11/08.

Similarly, Munich Re's Chairman of Board of Management, Nikolaus von Bomhard, recently noted that "...the risk tolerance of a large number of our clients in reinsurance has been significantly restricted due to their own burdens from the financial market crisis, which will lead to a noticeable increase in demand for reinsurance as a substitute for equity. This applies equally to life and property-casualty classes."<sup>8</sup>

Most pointedly however, Dr von Bomhard told shareholders that Munich Re, the world's largest reinsurer, would look at 'substantial price increases' in the year ahead as a response to increased demand for reinsurance.

This 'hardening' of the reinsurance market is further proof that even the reinsurance market has shared in the global downturn.

The point was recently echoed by Hanover Re's Chairman Wilhelm Zeller who noted in the company's *Third Interim Report* that due to the crisis on international capital markets intensifying to a previously 'undreamt-of scale', the company like many others was impacted by the current turmoil on equity markets.<sup>9</sup>

With little doubt left as to the far reaching consequences of the financial crisis, the months ahead point to an increasingly robust position for reinsurance rates as even the reinsurers assess their risks.

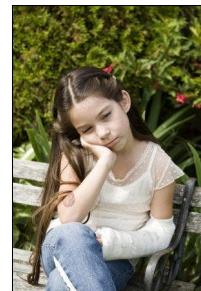
## StudentCover offers affordable protection for children

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Many of us would agree we live in the lucky country, but on any given day throughout Australia, accidents and injuries will see around 5,000 children require medical attention, 170 of whom will be admitted to hospital.<sup>10</sup>

Tragically, more than one child will die as a result of injuries sustained.

These frightening statistics from the Child Accident Prevention Foundation of Australia (Kidsafe) highlight the reality that accidents don't discriminate between children and adults.



Every parent knows that children are natural risk takers – they are curious and as such their inquisitiveness can often lead to trouble.

Despite this, the range of insurance options specifically designed to cover school-aged children in Australia lags behind the insurance options available for adults.

This is despite the fact that as of last year, there were close to three and a half million full-time school students in Australia, attending more than 9,500 schools.<sup>11</sup>

EBM's General Manager Ward Dedman said being able to take out a policy to cover their children is becoming increasingly important to parents.

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<sup>8</sup> Source: Munich Re, Third Quarter Interim Report 2008, released 30/9/08.

<sup>9</sup> Source: Hanover Re, Letter of the Chairman of the Executive Board, Interim Report, November 2008.

<sup>10</sup> Source: Child Accident Prevention Foundation of Australia (Kidsafe), Ten key facts about child injury in Australia.

<sup>11</sup> Source: Australian Bureau of Statistics: Schools, Australia, 2007, released: 29/02/2008.

“Recognising there was a segment of the market substantially without any insurance cover, EBM developed StudentCover in 1995 to insure students against injury seven days a week, 24 hours a day, anywhere in the world, and including participating in most sports,” Mr Dedman said.

“We have found that many parents are surprised to learn that most schools have no personal accident cover for their students, and for those that do, just what is and isn’t covered by their school-based insurance program. StudentCover gives piece of mind by covering their children whether they are at play down the street or on the other side of the world on school excursion or study abroad.”

EBM’s StudentCover is a low-cost accident insurance policy that provides 24/7 cover. Cover can be provided for as little as \$9 per student where the "whole of school" option is used (minimum cost \$280).

Alternatively, individuals can arrange cover at a total cost of just \$25 per year over the internet.

Mr Dedman said the real benefit of StudentCover is that it provides substantial cover when it is needed most – such as \$500,000 for paraplegia or quadriplegia.

The policy also includes:

- Compensation for other major injuries such as loss of sight or use of a limb;
- Emergency transport costs, including ambulance; and
- Fee relief if a parent or guardian dies.

The list of benefits is extensive and covers a wide range of injuries such as broken bones, fractures and loss of teeth. In most cases, payments can be made independently of what might be recovered for actual expenses through Medicare or private health insurance.

Cover for almost every sport is included, with some extreme sport exceptions such as motor racing, hang gliding, parachuting and sky diving.

“Thousands of parents and guardians across Australia have already taken out StudentCover knowing that while they’re dealing with the physical and emotional trauma, a StudentCover policy can be helping out financially.

For more information about StudentCover or to apply online, visit [www.studentcover.com.au](http://www.studentcover.com.au).

## Contact us

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**EBM Insurance Brokers** has offices in New South Wales, Victoria, Queensland and Western Australia, delivering local expertise combined with the national resources of one of Australia's largest insurance broking companies.

Email us at [ebm@ebminsurance.com.au](mailto:ebm@ebminsurance.com.au) or contact a local broker who can help you determine your insurance needs. Call 1300 INSURE (1300 467 873) for your nearest office:

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