



Insurance Insight

Insurance Industry News and Views from EBM

January/February 2009

Welcome Message

Happy New Year and welcome to the first edition of *Insurance Insight* for 2009.

As I write, the toll from the nation's worst bushfires is rising. We have watched as police and fire crews enter some of the region's worst-affected by Victoria's February fires like Kinglake West and Marysville north of Melbourne, to find whole townships wiped out.

Already it is confirmed that the grim toll from these fires amounts to at least three times the number of lives lost in both the Ash Wednesday fires of 1983 and the Black Friday fires of 1939.

Our thoughts are with the families devastated by this tragedy and I remind all EBM clients who may have been impacted to contact their broker so we can assist them in any way we can.

We support the Insurance Council of Australia in advising all policyholders who have been impacted by the bushfires to immediately make contact with their broker or insurer so that the claims process can commence as quickly as possible.

Turning to other matters, in this edition of *Insurance Insight* we take a close look at the growing issue of underinsurance and how it can affect Australian businesses of any size and shape. We are also pleased to announce the appointment of an injury management co-ordinator at EBM and we look at how this will add to our range of insurance services.

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@ebminsurance.com.au. If you would prefer to opt-out of receiving future newsletters simply click on the link at the bottom of this email.

Jeff Adams
Managing Director



Looking to the year ahead

As a New Year gets underway, the effects of the previous 12 months are still very much “front and centre” as the financial crisis continues to dominate board room meetings, water cooler conversations and debate in government circles.



From its origins in US sub-prime mortgages through to the decline in global equity markets, the crisis has driven economies around the world into recession and continues to severely challenge Australia’s economic forecasts.

With many investors eagerly looking for signs of a possible recovery, or even hints of continued deterioration, analysts are at odds in their estimates for the year ahead.

On the bearish end of the predictions, in February, the Reserve Bank of Australia slashed its growth and inflation forecasts for 2009.

Confirming it held a pessimistic outlook for the year ahead, the central bank warned that:

“The short-term outlook has clearly weakened over the past few months and official and private-sector forecasts of world growth in 2009 have been revised significantly lower. At this stage it appears likely that global conditions will remain very weak for at least the first half of 2009, though there may be some pick-up later in the year as the expansionary policy measures take hold.”¹

Following its reduction in official interest rates by 100 basis points in the New Year, the Reserve Bank gave few direct clues to the outlook for interest rates in its February statement on monetary policy. However the tone of its statement implies that further cuts may occur later in the year.

Currently interest rates stand at 3.25% - their lowest level in 45 years.

Sharing a similar outlook, the Federal Government sought to more pointedly address the worsening conditions as it released details for a proposed \$42 billion nation building and jobs plan in February.

Reaffirming recent forecasts by the International Monetary Fund that advanced economies will contract by 2% collectively in 2009, the Rudd Government said its latest stimulus package would provide a boost to economic growth of around half of one per cent of GDP in 2008-09 and around three-quarters of one per cent to 1% of GDP in 2009-10.²

While the present economic conditions have seen dramatic monetary and fiscal policy action, some industry analysts are suggesting these measures are already leading to improved conditions for investors, businesses and homeowners in Australia.

For example, recent data on housing affordability from the Real Estate Institute of Australia has shown an improvement in affordability conditions with the percentage of family income required to meet home loan repayments decreasing by 0.7% since the June quarter last year.³

¹ Reserve Bank of Australia, Statement on Monetary Policy, February 2009.

² Treasurer of the Commonwealth of Australia, \$42 Billion Nation Building and Jobs Plan, February 2009.

³ Real Estate Institute of Australia, Housing Affordability Report, September 2008.

This improvement in affordability, coupled with an increase in activity from first homebuyers thanks to the First Home Owners Boost, has been welcomed by industry groups such as the Master Builders Association who see it as a sign of confidence returning to the market.

Although analysts and business commentators differ in their assessment of the conditions that lie ahead this year, all agree that the current financial crisis has created unprecedented operating conditions for businesses both here and abroad. It remains to be seen then whether the more pessimistic or optimistic view will be more accurate.

Avoiding the underinsurance trap

With the global financial crisis putting unprecedented pressure on businesses both here and overseas, it is more important than ever for companies to maintain appropriate levels of insurance protection.



According to recent findings however, many businesses are leaving themselves dangerously exposed by having either inadequate levels of cover or simply no insurance at all.

Research conducted by the Insurance Council of Australia estimates that less than two thirds of all small to medium sized enterprises (SMEs) in Australia have adequate insurance.⁴

The findings reveal that over a quarter of all SMEs do not have any form of general insurance and it is sole traders that have the highest rate of non-insurance with 40% operating with no general insurance at all.

Underinsurance, too, is becoming increasingly prevalent in Australia and elsewhere around the world.

It describes a situation where the amount an individual or business is insured for is less than the true replacement cost of their home, business or contents.

All too often it is in moments of crisis – be it an insolvent creditor or damage to business premises – when business owners make the discovery they are underinsured. By this time of course, it is far too late.

EBM Managing Director Jeff Adams said all business owners should ask themselves if their business suffered a loss, would the amount they are insured for *completely* cover their loss?

“It’s a very simple but very powerful question that many people do not fully appreciate,” Mr Adams said.

“Chances are, if you hesitated in answering, you’re caught in the underinsurance trap.

“For many, underinsurance is a consequence of failing to take into account the appreciation of business assets.

⁴ Insurance Council of Australia, Non-insurance in the small to medium sized enterprise sector, December 2008.

“Construction costs have increased considerably in most states over the past three years so the replacement cost of commercial property can be significantly more than when it was first constructed.”

According to recently released data from Victoria, the price of materials has increased significantly. For example steel reinforcement, structural steel and fuel prices increased on average by 44.1 per cent, 33.6 per cent and 24.1 per cent respectively during the last six months of 2008.⁵

And despite a recent decline in building and construction costs in Western Australia, statistics from the WA Local Government Association show that during the past five years, the rate of building cost increases has been as high as 16% per year.⁶

Even issues like currency fluctuations can play a part. The falling Australian dollar has made imported goods much dearer than in recent years. In February 2008, the Australian dollar was valued at US\$0.9466. In February 2009 it is US\$0.6477.⁷

“This decline in the local currency makes the replacement value of imported machinery and other goods far more expensive than in recent years,” Mr Adams said.

“Those exposed to imported machinery and other goods need to revise their replacement values to avoid potential disparity between the cost of replacement and the sums insured.”

For businesses concerned about underinsurance, EBM can assist in keeping insurance needs up-to-date.

EBM’s Account Managers are available to discuss reviewing your existing policies to ensure all business clients are comprehensively covered at all times.

For more information about EBM’s range of insurance products and services, call 1300 INSURE or visit www.ebminsure.com.au.

Corporate doctors making house calls

Owing to the unprecedented operating conditions, corporate insolvencies are on the rise with more and more Australian companies being wound up.

Australian Securities and Investments Commission figures show a significant increase in companies becoming insolvent throughout 2008 when compared to the previous year’s figures.



ASIC figures show that 2,671 companies filed for insolvency in the last three months of 2008 compared to 1,904 in the corresponding period in 2007.⁸

⁵ Master Builders Victoria, Economy Watch No.3, Monday, November 2008.

⁶ WALGA, Annual changes segments of the industry, Economic Briefing, April 2008.

⁷ Reserve Bank of Australia, Daily Exchange Rates of the Australian Dollar.

⁸ Australian Securities and Investments Commission, 2007/08 Insolvency publications.

Insolvency boom: companies entering external administration

	2008	2007	2006
December	813	598	638
November	1011	673	653
October	847	633	623

Included in these figures are some high-profile corporate collapses such as Centro, Allco, ABC Learning and Lift Capital to name just a few. These well-known companies however were scarcely the only ones affected by the worsening financial conditions.

This rise in business collapses has fuelled a boom for insolvency administrators – or corporate doctors as they are known. Insolvency appointments rose to 1403 in December 2008, compared to 972 recorded in December 2007.⁹

And while the rise in the number of corporate insolvencies is significant, it has been mirrored by a rise in personal bankruptcies.

According to the Insolvency and Trustee Service of Australia, total personal insolvency activity increased by 11.69% in the December 2008 quarter against the same period the previous year. Furthermore, 6649 new bankruptcies were registered in the December 2008 quarter, an increase of more than 6% against the December 2007 quarter figures.¹⁰

EBM Managing Director Jeff Adams said the statistics show a spike in insolvencies due to the financial crisis and that the trend may well continue.

“In difficult operating conditions, financial institutions usually look to work with companies on the brink of collapse rather than have them placed in receivership,” Mr Adams said.

“However, in the current climate of deteriorating market conditions, we are seeing financial institutions begin to walk away from distressed companies.

“Companies with debt due in the next 12 months are in a more vulnerable position, however plunging property values have exacerbated many company’s efforts to offload assets.”

Mr Adams said EBM’s corporate broking division is focused on formulating effective risk management strategies for clients and helping them implement these strategies to best deal with prevailing market conditions.

For more information about EBM Corporate Insurance and Risk Management, call 1300 INSURE (1300 467 873) or visit www.ebminsure.com.au.

⁹ Australian Securities and Investments Commission, 2007/08 Insolvency publications.

¹⁰ Insolvency and Trustee Service of Australia, Provisional Personal Insolvency Statistics, January 2009.

Injury Management Co-ordinator joins EBM's team

EBM is pleased to advise all clients that it has recently added the services of a workers compensation injury and claims management specialist to its team.

Amanda Vella has joined EBM's Perth office to support EBM's national broking division.

She is a highly experienced injury management co-ordinator having provided advice on workers compensation matters to clients across a number of industries including the minerals and resources sector.



Amanda's role will be to provide expert advice and specific recommendations on all matters relating to workers compensation claims and injury management.

EBM Managing Director Alan Bishop described Amanda's appointment as a very important step for EBM and one that will provide substantial benefits to its clients.

"Workers compensation is an increasingly complex area for Australian businesses to navigate and the demand for specialists in this area is growing," Mr Bishop said.

"We recognised that there was an opportunity for us to add to the specialised service we provide our clients. For many of our clients, this issue is of vital importance and is of great significance to their level of **expenditure**.

"EBM's broking team are able to provide specialist advice to our clients on matters relating to workers compensation claims, injury management strategies and much more."

Other areas in which EBM will be able to provide advice on include:

- applying knowledge in the interpretation and application of the Workers ' Compensation and Injury Management Act;
- monitoring the performance of approved rehabilitation providers engaged to ensure high quality outcomes and cost effective services;
- attending case conferences, settlement conferences, teleconferences, arbitrations, pre-trials and other meetings; and
- assisting with the review and evaluation of injury management systems, including regular claim reviews.

In addition to these services, EBM can now assist clients in creating workable injury strategies which can include the development of a workers compensation manual including injury management and return-to-work guidelines, as well as relevant training sessions on workers compensation, injury management and claims management issues.

For more information about this service, call 1300 INSURE (1300 467 873).

Travel Insurance

With continued weakness in the Australia Dollar, it seems local travellers are discovering what overseas tourists have known for a while – Australia is a great holiday destination.



With traditionally popular holiday hotspots like the US and Europe now twice as expensive for Australian travellers than they were 12 months ago, more are putting domestic holidays on the agenda.

The latest aviation statistics from the Federal Department of Transport show a 5.9% increase in domestic airline passengers in October 2008, compared with the corresponding period in 2007. The rise contributed to a 7.6% increase in passengers for the year ending October 2008, compared with the year to October 2007.¹¹

According to Tourism Australia, this extra travel is pouring billions of extra dollars into the Australian economy.

Tourism Australia estimates that the total value of the domestic tourism industry rose 3% to \$59 billion last financial year compared to the previous year. Other figures show, as a nation, we are also spending more when we travel, with holiday spending up 6% during the same period.¹²

Even business travel increased by 2% to the year ending in June 2008, proving that business travellers are still prepared to criss-cross the country when needed.

As well as the flow-on effects from increased spending by domestic travellers, more Australians touring their own country is also expected to have other benefits.

As part of its Australian Tourism Development Program, a merit-based grant program that supports the development of the Australian tourism industry, the Federal Government hopes to enhance the competitiveness of Australia's tourism industry to overseas travellers as well.

With increased domestic travel, home-grown tourists are reminded that adequate travel insurance is a must for both overseas *and* domestic travel.

The hidden costs that can occur when accidents, injuries or unexpected events happen are still very much applicable, whether the accident happens overseas or interstate. And all too often, there are significant financial implications from accidents or injuries during travel.

EBM provides travel insurance options for both overseas and domestic travel and business-related travel. For more information, call 1300 INSURE (1300 467 873) or visit www.ebminsurace.com.au

¹¹ Federal Department for Transport, Australian Domestic Airline Activity time series data, October 2008.

¹² Tourism Australia, Domestic Travel Indicators, Year ending June 2008.

Contact us

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@ebmininsurance.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:

Sydney

Level 9/333 George Street, Sydney New South Wales 2000

Melbourne

Suite 4/651 Victoria Street, Abbotsford Victoria 3067

Brisbane Office

Level 5/150 Edward Street, Brisbane Queensland 4000

Perth Office

105 Outram Street, West Perth Western Australia 6005

Gold Coast

Level 8/64 Marine Parade, Southport Queensland 4215

Bunbury

28 Stirling Street, Bunbury Western Australia 6230

Kalgoorlie

47-49 Boulder Road, Kalgoorlie Western Australia 6430

Geraldton

65A Forrest Street, Geraldton Western Australia 6530

Margaret River

PO Box 658, Margaret River Western Australia 6285



All Enquiries: 1300 INSURE (1300 467 873) | ebm@ebmininsurance.com.au | www.ebmininsurance.com.au
Sydney | Melbourne | Brisbane | Perth | Gold Coast | Bunbury | Kalgoorlie | Geraldton | Margaret River
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Elkington Bishop Molineaux Insurance Brokers Pty Ltd | AFSLN 246986 | ABN 31 009 179 640 | Est 1975