



# Insurance Insight

Insurance Industry News and Views from EBM

May/June 2009

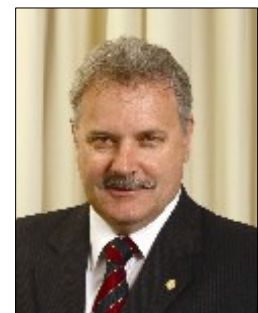
## Welcome Message

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Welcome to the third edition of *Insurance Insight* for 2009.

As I write, many commentators are busy discussing the surprise rise in Australia's economic growth figures.

As reported earlier this month, the 0.4% rise in national Gross Domestic Product for the March quarter was unexpected by many analysts and, much to the delight of the Federal Government, it allowed Australia to dodge the technical definition of a recession - two consecutive quarters of negative growth.



With these figures coming just weeks after the Prime Minister said it was "inevitable" the country would slip into recession, the Federal Government has remained cautious in its description of the growth figures, saying Australia still faces more tough times ahead.

As well as the continuing economic storm, this year continues to be dominated by severe weather conditions. Most recently, South East Queensland and northern New South Wales have been affected by devastating floods.

By the end of May, the general insurance industry had received approximately 9,500 claims from impacted areas in both regions with early estimates of the insurable cost put at \$39 million.<sup>1</sup>

These estimates are expected to rise and the flood-related claims join the 10,040 claims received so far in relation to the Victorian bushfires, which total an estimated insurable cost of \$1.07 billion.<sup>2</sup>

In this edition of *Insurance Insight* we look at the Federal Budget handed down on 12 May 2009 and some of the major announcements that affect business and investors. We also look at how companies are looking at advertising expenditure in the current climate, see how Swine Flu is catching major corporations unprepared, and examine how EBM's Financial Planning services are helping businesses and individuals secure their financial future.

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<sup>1</sup> Insurance Council of Australia, Update on Southeast QLD and Northern NSW Initial Claims Received, 26 May 2009.

<sup>2</sup> Insurance Council of Australia, Update on Southeast QLD and Northern NSW Initial Claims Received, 26 May 2009.

We are keen to hear your thoughts and ideas for issues and topics you would like to see covered in *Insurance Insight*. Please email your suggestions to [marketing@ebminsur.com.au](mailto:marketing@ebminsur.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  
**EBM Insurance Brokers**

## Deciphering the Federal Budget

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The 2009-10 Federal Budget handed down last month was described by Prime Minister Kevin Rudd and Treasurer Wayne Swan as a “difficult budget for difficult times”.



At its heart, the Government said the Budget would deliver an increase in Government spending to help stabilise the domestic economy and support employment growth in the future.

The public were told that we face “the most challenging global economic conditions since the Great Depression”, and specific measures were needed to combat rising unemployment – now expected to increase to 8.5 per cent by June 2011.<sup>3</sup>

In response, the Leader of the Opposition, Malcolm Turnbull, called the Budget “reckless” and criticised the rising deficit and changes to the private health insurance rebate.

Despite the rhetoric, the Budget includes individual tax cuts promised last year and a number of proposed changes to the Age Pension and superannuation.

Among the key initiatives announced, the extension of the First Home Owners Boost was welcomed by the housing and development industries. According to recent figures, the First Home Owners Boost has helped 59,000 Australians buy their first home, and the extension of the funding boost for a further six months — including three months at the full rate – is likely to encourage thousands more to enter the property industry.

Other key budget initiatives include:

- Concessional super contribution caps halved;
- Age Pension age to increase to 67 by 2023;
- Pension taper rate increased to 50 cents for singles; and
- Paid parental leave introduced from 2011.

### **How are small businesses affected?**

The Budget confirmed the government’s intention to expand the small business and general business tax break it announced in February 2009. Small businesses with turnover of less than \$2 million a year will now be able to claim a bonus tax deduction of 50% where they acquire eligible assets costing more than \$1,000.

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<sup>3</sup> Treasurer Wayne Swan, Budget Speech 2009-10, delivered on 12 May 2009 on the Second Reading of The Appropriation Bill (NO. 1) 2009-10.

The Government also announced it will reduce Pay As You Go (PAYG) instalments for taxpayers who pay quarterly instalments based on their previous year's tax, adjusted by GDP growth. This reduction is designed to provide cash flow relief for eligible small businesses and, from 1 July 2009, the adjustment factor for calculating quarterly instalments will be reduced from 9% to 2%.

### **Promised tax cuts**

The major changes for income tax sees the income threshold for the 30% tax rate increased from \$34,000 to \$35,000, and the 40% tax rate for those earning \$80,001 to \$180,000 drop to 38%.

Those on lower incomes of between \$15,000 and \$30,000 will receive an extra \$2.89 per week. At the other end of the spectrum, high income earners on more than \$180,000 will receive an extra \$41.35 per week.

### **The Private Health Insurance Rebate**

The reduction in the Private Health Insurance Rebate from 1 July 2010 has been met with strong opposition by those who believe it will make health insurance unaffordable for many and increase pressure on the public healthcare system.

The Government is proposing to means test the 30% Private Health Insurance Rebate for middle to high income earners based on age.

To achieve this, it plans to introduce a three-tier system:

- Tier 1: For singles with income of more than \$75,000 (more than \$150,000 for families). For these people, the rebate will be reduced to 20%, 25% at 65 and by 30% at 70.
- Tier 2: For singles with income of more than \$90,000 (more than \$180,000 for families), the rebate will be reduced to 10%, 15% at 65, and by 20% at 70.
- Tier 3: No private health rebate will be available for singles with income above \$120,000 (more than \$240,000 for families).

For more information on the Federal Budget, visit [www.budget.gov.au](http://www.budget.gov.au).

## **Swine flu warning spreads**

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With the growing number of Swine Flu cases in Australia and other countries, concerns are growing that governments and businesses may not be doing enough to address the challenges that arise from a possible human pandemic.



There have been strong recommendations within the insurance industry that businesses, government entities and education facilities review their crisis management plans and revise or update them in light of the rising risk the outbreak represents.

The calls have questioned whether companies have the procedures or crisis management plans to address emergencies that can affect business continuity or adequately cover a situation involving communicable diseases that can affect employees and the general population on a wide scale.

These warnings comes as cases of Swine Flu spread throughout Mexico, the U.S., Canada, U.K., Spain, and suspected cases emerge in several other countries. In Australia, Federal Health

Minister Nicola Roxon revealed the number of confirmed cases hit 1,211 on 9 June with 1,011 cases in Victoria alone.<sup>4</sup>

As the number of cases quickly escalated in Australia, more drastic action was taken by health officials and members of the community. Schools across the country have recently closed as a precaution and sporting organisations such as Swimming Australia have cancelled major public events.

The Department for Health's advice to businesses has been blunt - businesses not providing essential services should consider operating at a reduced level or even close down temporarily in light of the virus.

However EBM Managing Director Jeff Adams said the most important thing businesses can do to prepare is have a reliable continuity plan in place.

"Businesses need to monitor the Swine Flu situation very closely, paying particular attention to federal and state government advice," Mr Adams said

"As well as keeping informed, contingency plans need to be reviewed to focus on dealing with high absenteeism and interruptions to the supply of goods and services, including the restriction of movement of people into and within Australia.

"The Government has warned that absenteeism could be as high as 30 to 50% at the peak of a pandemic and, for many businesses, this level of absenteeism would be nothing short of crippling."

Mr Adams said managers need to evaluate their firm's risk management procedures, human resource policies and other crisis management plans to ensure they remain appropriate for the business today.

Other issues for businesses to consider include:

- identifying essential business activities and ensuring these are backed up with alternative arrangements;
- identifying the resources required for the organisation to continue operating at the minimum acceptable level;
- developing mitigation strategies for business disruptions, including possible shortages of supplies, and developing contingency plans for continued operation;
- ensuring that relevant employees, customers and suppliers are aware of the contingency arrangements, and that the arrangements will work; and
- minimising illness in workers, including having infection control guidance as part of the plan.<sup>5</sup>

## Businesses look to decrease marketing spending

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The importance of a company's reputation, as expressed in brand and image, has long been acknowledged. Companies spend billions of



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<sup>4</sup> Australian Department for Health and Ageing, H1N1 09 Outbreak, 9 June 2009.

<sup>5</sup> Australian Department for Health and Ageing, H1N1 09 Outbreak, 9 June 2009.

dollars each year to either raise or sustain their profile through marketing, sponsorship activities and public relations.

According to media buying group ZenithOptimedia, the 2009 global advertising expenditure is expected to top \$453 billion, rising to \$480 billion in 2011.<sup>6</sup>

And the effects of negative publicity can be extremely costly and long-lasting. There are numerous examples of the damage that scandals, accidents or poor decisions can have on an entire organisation's brand. The recent economic crisis provides many recent examples such as the tarnished brands of Freddie Mac and Fannie Mae, Centro Properties Group and General Motors, just to name a few.

Despite the desire to avoid the kind of brand fallout typified by failed financial institutions and American car manufacturers, advertising budgets are not immune to the current financial crisis. According to PricewaterhouseCoopers' most recent Private Business Barometer survey, decreasing marketing expenditure remains the favourite strategy to help weather an economic downturn, while reducing operating expenses is a close second.

Of the 750 companies with a turnover between \$10 million and \$100 million surveyed, 93% said the first thing they would cut is advertising and marketing in difficult times, with the survey saying this indicated an unwillingness to view marketing's role in building confidence and visibility as a strategic necessity.<sup>7</sup>

With marketing expenditure being constricted, companies that still desire a presence in the public domain are increasingly looking to maximise their advertising spend. As such, more affordable options such as digital marketing and public relations are expected to rise sharply.

ZenithOptimedia predicts that the internet will attract higher ad expenditure in 2009, forecasting 8.6% growth in internet expenditure this year.<sup>8</sup> This is supported by evidence that shows consumers spending more time at home to save money are increasingly turning to digital media for entertainment and information.

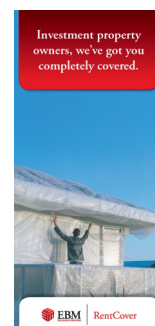
Recognising the importance of a company's image, EBM Insurance Brokers can include a discussion of issues connected to this. The objective is to ensure the continuation of a business following any major disruption, and will cover potential crises that businesses of all shapes and sizes may encounter.

For more information on how EBM can assist in this area contact your account manager or call 1300 INSURE (1300 467 873) or email [ebm@ebminsurance.com.au](mailto:ebm@ebminsurance.com.au).

## More and more investors seek cover for uncertain conditions

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The current financial crisis has resulted in unprecedented market volatility, credit concerns, market losses and bankruptcies affecting Australian investors.



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<sup>6</sup> ZenithOptimedia, Advertising expenditure by region, 14 April 2009:  
[www.zenithoptimedia.com/about/news/pdf/Adspend%20forecasts%20April%202009.pdf](http://www.zenithoptimedia.com/about/news/pdf/Adspend%20forecasts%20April%202009.pdf).

<sup>7</sup> PricewaterhouseCoopers, Private Business Barometer, Fifth edition – May 2009/

<sup>8</sup> ZenithOptimedia, Advertising expenditure by region, 14 April 2009:  
[www.zenithoptimedia.com/about/news/pdf/Adspend%20forecasts%20April%202009.pdf](http://www.zenithoptimedia.com/about/news/pdf/Adspend%20forecasts%20April%202009.pdf).

According to Investment & Financial Services Association's Quarterly Investor Sentiment Research Report, almost half those surveyed said that their household financial situation is worse than last year.<sup>9</sup>

The survey found investor sentiment is at its lowest point since the end of 2004, taking into account investors' expectations regarding the performance of the investment market, their perception of the current financial situation and their future investment intentions.

As these concerns continue to be felt around the country, EBM Insurance Brokers General Manager Sharon Fox-Slater says investors are increasingly looking for more strategic protection of their assets.

"One major by-product we have seen emerge from the current financial climate has been the dramatic rise in the number of property investors looking to take a more prudent approach to risk management." Ms Fox-Slater said.

"Through our RentCover division, we have seen a significant escalation in the number of Australian investors taking out landlord's insurance to protect their investment properties."

Ms Fox-Slater said reports continue to be received from property management companies throughout Australia of significant rises in rental arrears due to tenants either losing their jobs or having their working hours significantly reduced. This comes as the latest data from the Australian Bureau of Statistics shows the country's unemployment rate now stands at 5.7%.<sup>10</sup>

As Australia's largest privately-owned insurance broking company, Ms Fox-Slater says EBM has created a range of specialised insurance products for investment property owners with features and inclusions to protect their investment.

"EBM's successful RentCover range of products have been developed to ensure that clients' investments are adequately protected from tenant-related risks," she said.

"Many policies don't cater for tenant-related risks such as lost rental income, malicious or accidental damage by tenants and legal liability."

The RentCover range of products includes RentCover*Ultra* which covers property owners against theft and damage (accidental or malicious) by tenants or their guests up to \$50,000.

The most recent addition to the RentCover suite of products is RentCover*Platinum* which combines RentCover*Ultra* with home and contents insurance at premiums of around 20% less than the two policies bought separately.

RentCover*Platinum* delivers owners peace-of-mind that the risk of financial loss from owning their investment property is greatly reduced.

For more information about the RentCover range of products, visit [www.rentcover.com.au](http://www.rentcover.com.au) or call 1800 661 662.

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<sup>9</sup> Investment & Financial Services Association, Quarterly Investor Sentiment Research Report, March 2009.

<sup>10</sup> Australian Bureau of Statistics, Labour Force, Australia, May 2009 , 11/6/09.

## EBM Financial Planning Services

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Recent state and federal budgets have included a number of new initiatives and rules were introduced that have a significant affect on the private health cover, superannuation and pension rates of all Australians.



EBM Managing Director Jeff Adams said although many people find navigating through taxation and superannuation regulations daunting, EBM's Financial Planning services can help individuals keep informed of changes and tailor financial strategies designed to create and preserve wealth.

“Financial planning is vital to ensure the proper management of your finances, not just for today, but for the rest of your life,” Mr Adams said.

“EBM Financial Planning can assist clients with a variety of services such as retirement planning, superannuation, and insurance needs to minimise their tax liability, increase their investment returns or protect their lifestyle.”

“These services are now more important than ever as more and more people approach retirement and the rules governing their entitlements continue to change.”

Some of the services EBM Financial Planning provides include:

### **Retirement planning:**

In light of recent changes by the Federal Government, there are a variety of options open to individuals to structure their finances for long-term income flexibility through their retirement years. EBM Financial Planning conduct an in-depth analysis to learn about client needs and understand their goals. This includes likely retirement age, travel plans and attitudes towards various risks and returns involved in retirement investing.

### **Superannuation**

Superannuation is an effective way to secure a financial future in retirement. EBM Financial Planning's superannuation services help plan for sufficient retirement income and take advantage of the generous tax incentives provided by the Federal Government.

EBM Financial Planning can advise clients on ways to capitalise on these incentives such as setting up a salary sacrifice arrangement with employers, or making additional super contributions to reduce income tax bills.

### **Investment**

A comprehensive financial plan can provide direction and discipline and EBM Financial Planning can help clients determining their financial goals and risk profile and suggest different strategies and investments that will meet their needs.

EBM Financial Planning's investment advice also looks at how clients can use insurance to help protect family members and their way of life in case of unexpected events.

### **Insurance**

The loss of future earning potential can be financially devastating. Without a regular income, it can be a challenge just paying for household expenses, mortgage repayments and other day-to-day expenses.

EBM Financial Planning can use risk insurance to structure a total financial protection package to protect against loss of income, disablement, serious illness and death. Protection for business owners is also available, covering issues such as 'key person' protection and business asset security.

### Specialist services

EBM Financial Planning can provide specialist help with Social security/Centrelink services and payments. These include (but are not limited to) the Age Pension, Mature Age Allowance, Family Tax Benefit, Parenting Payment and Disability Support Pension. There is also a range of benefits for service veterans.

As well as the Age Pension, EBM Financial Planning can advise retirees on their eligibility for benefits including the Health Care Card, Commonwealth Seniors Health Care Card, Pensioner Concession Card and the Pharmaceutical Allowance.

EBM Financial Planning can also help structure investments and assets to maximise an individual's chance of qualifying for a pension by reviewing their situation.

For more information on EBM's Financial Planning services call 1300 INSURE (467 873) or email [ebm@ebmfinancialplanning.com.au](mailto:ebm@ebmfinancialplanning.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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