



# Insurance Insight

Insurance Industry News and Views from EBM

September-October 2009

## Welcome message

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Welcome to the September-October edition of *Insurance Insight* for 2009.

It's been 12 months since US financial-services firm Lehman Brothers collapsed in September 2008 and the Global Financial Crisis began dominating world-wide headlines.

Since then we have seen equity markets plummet, business confidence deteriorate and governments around the world seek emergency measures to prop up ailing national economies.

And while the GFC has affected different countries and companies in many ways, there's one thing that everyone in the business community can agree upon – it's certainly been a year to forget.

Looking back over the past year, we have seen that following a period of intense stress in global markets from September 2008 to March 2009, conditions in the global financial system have improved significantly in recent months. While markets remain under considerable stress, confidence in the business community, particularly in Australia, has begun to return.

Key indicators of the improving health of the economy include higher dwelling activity and public demand as well as better-than-expected unemployment figures. We have also seen improvements in dwelling finance figures largely due to a spike in first homebuyer activity around the country.

And with the nation's home builders experiencing increased demand, EBM is continuing to support the home building industry following the announcement that Lumley General and CGU Insurance would no longer operate in the home warranty market.

EBM has successfully secured QBE Australia to its panel of three Insurers for its *BuildCover* policy, and has been working hard to ensure home builders experience no disruption to their insurance.

Turning to this edition of *Insurance Insight*, we examine how the Black Saturday bushfires have reignited the underinsurance debate in Australia, examine the ways the Australian Tax Office plans to target businesses and executives over the coming year, and hear from Alan Bishop about his time at the helm of EBM.

If you have any thoughts or ideas about articles you would like to see covered in *Insurance Insight*, please email your suggestions to [marketing@ebminsurance.com.au](mailto: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  
**EBM Insurance Brokers**



## Tax office announces blitz on executives

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The Australian Taxation Office has announced it will look further into the tax records of company executives and businesses amid concerns that the Financial Crisis has triggered an increase in dubious tax returns.

The warning comes as taxpayers increasingly look for ways to offset their investment losses.

Commissioner of Taxation, Michael D'Ascenzo, has warned that the Tax Office will step-up its efforts to combat illegitimate claims to ensure a level playing field is maintained for all Australian workers and businesses.

Releasing the Compliance Program for 2009-10, Mr D'Ascenzo said:

*"The economic downturn has created a very different and highly volatile risk environment. As a result, we are seeing ... a climate in which some taxpayers may be more aggressive in seeking to avoid or evade their tax and superannuation obligations, including through offshore arrangements."*<sup>1</sup>

And it would seem that the ATO has the resources to back its claims.

According to recently released figures, the Tax Office has completed dozens of compliance audits of large businesses which have uncovered \$690 million in unpaid GST liabilities alone.

Over the last financial year, more than 290 compliance audits were conducted which focused on the validity of business systems, financial supplies and property transactions.

The ATO has even gone so far as to warn large business that it is chiefly concerned about losses that 'do not reflect genuine commercial arrangements'. In light of this, it will be increasingly examining the following areas:

- non-genuine losses;
- errors and misclassification;
- arrangements that inappropriately attribute foreign losses to Australia;
- incorrect claiming of tax deductions, in particular finance related claims; and
- arrangements that inappropriately apply foreign losses against domestic income.

However it's not only large businesses that are being brought under the microscope.

Individuals and small businesses can expect more in-depth scrutiny of their returns, in particular losses, high-risk refunds, eligibility for tax offsets and employee share schemes.

Highly-paid company directors and executives have also been named on the 'watch list' with investigations into these individuals set to increase over the next four years to ensure they meet their tax obligations as the economy recovers.

The ATO estimates that the monitoring of wealthy Australians will be expanded to include individuals with a net wealth of between \$5 and \$30 million.<sup>2</sup>



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<sup>1</sup> Australian Taxation Office, Compliance Program for 2009-10.

<sup>2</sup> Australian Taxation Office, Compliance Program for 2009-10.

In light of this increased scrutiny of Australia's business community, the ATO maintains that these new measures will sustain community confidence in tax and superannuation systems and help promote faster growth of Australia's tax collections as the economy recovers from the downturn.

### **EBM can assist:**

EBM's Financial Planning services can help individuals and businesses keep informed of changes to tax requirements and tailor financial strategies designed to create and preserve wealth.

EBM can assist clients with a variety of services to minimise their tax liability, increase their investment returns or protect their lifestyle.

Some of the services EBM Financial Planning provides include:

- **Retirement planning**
- **Superannuation requirements**
- **Investment arrangements**
- **Insurance needs**
- **Specialist services such as aged care benefits**

EBM 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 (08) 9213 4567 or email [ebm@ebmfinancialplanning.com.au](mailto:ebm@ebmfinancialplanning.com.au).

## **Australian directors face board battleground**

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A new report into business conditions in Australia has given the country a "fail" mark for business-friendliness, saying the nation must try harder to make conditions more attractive for business.

The study by the Australian Institute of Company Directors (AICD), released in September 2009, rates different states' legal regimes in terms of the laws imposing liability on directors, the number of those laws in operation and the procedural fairness with which they are administered.



And according to the AICD, most Australian states fail the test when it comes to excessive liability burdens imposed on company directors which have damaging impacts on business investment and jobs.

The report shows that only two states – ACT and Victoria – received better than a “pass” mark, while six failed. None received better than a credit.<sup>3</sup>

Queensland had the worst result, with South Australia, Western Australia and New South Wales also doing poorly, all falling well short of a pass mark.

The AICD said the message of the survey was that the burden of risk being confronted by Australian directors is making many qualified people shy away from taking up board seats and causing others to get out, through resignation or premature retirement.

EBM Managing Director Jeff Adams said recently proposed changes to laws impacting on directors' liability have had a dramatic effect on company executives.

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<sup>3</sup> Australian Institute of Company Directors, Boardroom Burden Report Card, September 2009.

“The Federal Government has expressed an intention to harmonise the laws on company director liability in relation to the imposition of personal criminal liability for corporate fault,” Mr Adams said.

“Major changes to directors’ liability such as these are of natural concern to corporate executives and it is prudent for company leaders to maintain adequate protection against potential liability, both at a personal and corporate level.”

As well as legislative changes, Mr Adams said issues of directors’ liability have been highlighted by increased shareholder actions and a rise in business insolvencies due to a downturn in economic conditions.

However, EBM’s Corporate team provides clients with professional advice and intelligence on risk transfer and retention and offers individualised insurance for major businesses and corporations. EBM can provide tailored advice on specific products such as management liability, directors and officers liability, employment practices liability, directors and officers supplementary legal expenses and statutory liability.

For more information about EBM’s range of insurance products, call 1300 INSURE or visit [www.ebminsurance.com.au](http://www.ebminsurance.com.au).

## Black Saturday survivors become victims of underinsurance

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According to submissions received by the Victorian Bushfires Royal Commission, a significant proportion of the victims of the fires either had no insurance or inadequate insurance protection of their property.

Figures compiled to date put the levels of underinsurance among claimants above 50% of all claims received so far, with some figures going as high as 74%.<sup>4</sup>



These alarming findings have emerged as the number of claims received passes the 10,000 mark.

According to the Insurance Council of Australia, approximately 10,180 claims have been received as of September 2009 with insurance assessments now complete for 99% of damaged residential and commercial properties.

The approximate insured value of these claims stands at \$1.09 billion which includes widespread residential, commercial, industrial and farming losses.<sup>5</sup>

But while the proportion of underinsurance and non-insurance among bushfire victims is tragic, it is not surprising in relation to recent research into the topic.

There has been a significant amount of research in this area in recent years with the Insurance Council of Australia’s report - *The Non-Insured: Who, Why and Trends* – estimating that 23% of Australian households did not have a building or contents insurance policy.<sup>6</sup>

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<sup>4</sup> 2009 Victorian Bushfires Royal Commission, May 2009.

<sup>5</sup> Insurance Council of Australia, Victorian Claims Update, August 2009

<sup>6</sup> Insurance Council of Australia, *The Non-Insured: Who, Why and Trends*, May 2007

The NRMA also released a study in 2001 – *the Home and Motor Vehicle Insurance: A Survey of Australian Households* – and the ANZ Bank has also conducted research into the area with the findings all too similar; namely that underinsurance is a significant problem in this country.

But with the Australian bushfire season looming, concerns are growing that the lessons to be learnt from the Victorian fires are not sinking in.

EBM Managing Director Jeff Adams said a lack of awareness about insurance policies was a main reason why so many Australians are underinsured.

“In most cases, underinsurance happens when customers do not know enough to make informed decisions about their policy,” Mr Adams said.

“When it comes to renewing policies, people need to account for changes in the value of their homes and other assets.

While the Black Saturday bushfires have highlighted the prevalence of underinsurance in times of crisis, Mr Adams encourages all EBM customers to make contact with their EBM representative to ensure their insurance policy provides sufficient cover in all circumstances.

“As Australia’s largest privately-owned insurance broking company, EBM is committed to helping its customers make educated decisions about their policies in order to adequately protect their assets, not only in the wake of a one-off major disaster, but on a daily basis,” Mr Adams said.

## Staff profile: Alan Bishop

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From his start in the small Perth office of a worldwide insurance company through to his role as EBM Joint Managing Director, Alan Bishop says he has had a very satisfying career in Australia’s insurance broking industry.

With experience gained from almost 35 years of involvement in the broking world, Alan says that although he has seen the industry go through some dramatic changes, the principles of customer service, adding value and product performance remain as important as ever.

“I’ve worked in many different areas across the industry and have been associated with broking entities both large and small, but the importance of personal service and well priced, quality products has never changed,” Mr Bishop said.

Reflecting on his start in the industry, Alan’s first position was with Prudential Assurance, the largest UK insurance company, in 1970.

“I was very lucky with my first job because even though it was a small office, there was a great mentoring and training program which provided me with an expansive introduction to the industry,” Alan said.

“I remained at the company for over four years before being recruited by international insurance broker Stewart Wrightson, where I was involved with Corporate, Marine and Aviation insurance programs. It was there that I met Neville Elkington, who was a Director, and in 1975 we decided to strike out on our own and formed Elkington Bishop and Associates.”

Alan describes starting his own company as a challenging but rewarding experience and one that would set him on a career path for the next three decades.

However, it was the early years of Elkington Bishop that coincided with dramatic changes for the Australian insurance broking industry.



In the early 1980s, the Western Australian government became the first in Australia to introduce legislation governing the activities of insurance brokers. It was the first attempt at regulating the industry which had, up until then, been subject to very little control. It was not until some five years later that federal government legislation came into effect.

“It was a very interesting time to be involved in the industry,” Alan remembers. “When the State Government brought in the new requirements for brokers, very quickly we saw a rationalisation of the market as some players recognised they could not meet the new legislative requirements,” Alan said.

“All of a sudden we had between 60 and 70 registered brokers as distinct to the thousands allowed to call themselves insurance brokers prior to the legislation. It really started a very busy period of acquisition for us that would last for around three years.”

It was also at this time that the make-up of Alan’s business changed. Following a restructure, Alan became the majority owner of the company, and in the space of six months, the business acquired two insurance broking entities.

This period of growth would remain steady until 2001 when the company made a strategic entrance into the east-coast corporate market.

“Establishing the company’s first corporate business capital city office outside of Perth was a significant event for us and we have never looked back,” Alan said.

“It was very important to expand the business into new markets and now the company is well-placed to capitalise on potential acquisition opportunities as they arise. The recent Savill Hicks (WA) purchase is a good example of the business remaining open to all opportunities if they are the right fit for us.”

Already seen as a corporate leader in the industry, Alan has also dedicated himself to advancing the interest of the industry as a whole.

A past national President of the National Insurance Brokers Association of Australia (NIBA), Alan has received numerous industry accolades including Honorary Fellowship of NIBA, one of only eight people bestowed this recognition since the Association’s formation in 1982.

Looking ahead, Alan says EBM remains as committed as ever to delivering professional, personal and valued service to all of its clients at all times.

“Our success is and has always been, due to the fact that we have good people who provide professional advice that over-delivers on what our clients expect,” Alan says. “We remain committed to helping our clients achieve their own business objectives without worrying about the risks that impinge upon them everyday.”

## Contact us

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**EBM Insurance Brokers**, with offices in New South Wales, Victoria, Queensland and Western Australia, delivers 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:

### **Sydney**

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

### **Melbourne**

Suite 4/651 Victoria Street, Abbotsford Victoria 3067

### **Brisbane Office**

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**Perth Office**

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**Gold Coast**

Level 8/64 Marine Parade, Southport Queensland 4215

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**Margaret River**

PO Box 658, Margaret River Western Australia 6285

**Important note:** Our advice is provided for your general information and does not take into account your individual needs, you should read the respective insurers product disclosure statement which we can provide upon request before taking out cover.