March/April 2009

Welcome Message

Welcome to the third edition of Insurance Insight for 2009.

As I write, global uncertainty surrounding the economic crisis continues, dominating conversations in the business community. As financial instability further undermines investor confidence, Prime Minister Kevin Rudd admitted for the first time that recession in this country is now ‘inevitable’.

It was the first time Mr Rudd used the ‘R’ word in the context of the Australian economy came just one day before Reserve Bank Governor Glenn Stevens made a similarly dire prediction, telling the Australian Institute of Company Directors:

“Whether or not the next [gross domestic product] statistic, due in early June, shows another decline, I think the reasonable person, looking at all the information available now, would come to the conclusion that the Australian economy, too, is in recession.”

Mr Steven’s comments came as the release of the Central Bank’s minutes from its April 7 Board Meeting acknowledged the economic slowdown had probably met the conventional benchmark for recession – that being two consecutive quarters of declining gross domestic product.

And as the Global Financial Crisis becomes a recognised acronym – now called the ‘GFC’ for short – we are seeing the pressures of the current operating conditions impact companies in different ways.

Many businesses have made significant cuts to their workforce including well-known corporations such as Rio Tinto, BHP, Lend Lease and Qantas. Others have been the target of vocal shareholder protests and many more have dramatically revised down earning targets for the financial year.

Another major effect of the GFC over the past months has been a rise in shareholder anger at the remuneration packages paid to company executives. So, in this edition of Insurance Insight we take a closer look at the topic of large bonuses paid to executives and how the resulting actions by angry investors can affect company boards.

1 Reserve Bank Governor Glenn Stevens, Address to the Australian Institute of Company Directors, Directors Luncheon, Adelaide - 21 April 2009.
Elsewhere, we examine the current high proportion of residential property sales to first homebuyers and look at the topic of potential increases in insurance premiums. We also profile EBM General Manager Sharon Fox-Slater as she drives RentCover into more real estate agencies around the country.

As always, 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@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

Community action draws a question mark over directors’ fees

With dramatic falls in share prices and dividend payments being cancelled, many investors in Australian equity markets have become increasingly frustrated at the deteriorating value of their stock.

In recent times, investors have sought to direct this frustration at company boards and, in particular, the large bonuses paid to executives.

The recent reporting period has thrown up a number of examples of significant community backlash against boards who have approved large bonuses and termination payments for senior company employees.

A recent and very prominent example was that of a CEO’s retirement payout being slashed after the group’s board bowed to pressure from shareholders.

A report by a financial risk manager advised its subscribers to reject a remuneration report, which would have seen a payout of up to $7.35 million plus options if the CEO was to retire or be terminated.

Following the distribution of this report, the payout was drastically cut with the retirement benefit being amended to a lump sum payment of one year’s annual base salary.”

Previously the company’s CEO was to be paid a lump sum payment of 150% of both his annual salary and his short-term cash incentive for the year.

This CEO’s retirement arrangements aren’t the only ones coming under scrutiny. Macquarie Group also cut its bonus payments, announcing in March 2009 that the "proposed changes reflect recent remuneration trends". Part of these changes saw the cash component of the Chief Executive’s profit share fall from 70% to 45%.

2 Message to Major Investors, Response to Recommendation to Vote “No” on Remuneration Report, 1 April 2009.
In March this year, the Federal Government weighed into the debate with Treasurer Wayne Swan announcing reforms aimed at curbing excessive “golden handshakes” – or termination payments – paid to company executives.

Under the laws, termination payments would be capped at a maximum of seven times a director’s total annual remuneration package before shareholder approval is required.

In a statement released at the time, Mr Swan said, “The community has been rightly offended by the excessive golden handshakes in firms where directors and executives are rewarded for poor company performance.”

EBM Managing Director Jeff Adams said the Federal Government has also turned its attention to laws relating to directors’ liability.

“In recent times we have seen the Federal Government take deliberate steps to audit the laws impacting on directors’ liability,” Mr Adams said.

“The Government’s intention is to harmonise the laws on company director liability with the principles developed by the Council of Australian Governments which call for the imposition of personal criminal liability for corporate fault.

“In light of these potential changes to the laws regarding directors’ liability, it is prudent for executives to maintain adequate protection against potential liability, both at a personal and corporate level.

“The EBM Corporate team provides clients with professional advice and intelligence on risk transfer and retention and offers individualised insurance for major businesses and corporations.”

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

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**Staff Profile- Sharon Fox-Slater**

An industry veteran with more than 22 years experience, EBM Insurance Brokers General Manager Sharon Fox-Slater says receiving client feedback is still one of the most important aspects of her job.

“Even after 16 years in EBM’s RentCover Division, the feedback we get from our clients is a vital part of our business,” Ms Fox-Slater said.

“For every business, client feedback is important but for a retail product like RentCover it is critical. The comments we receive about the service we provide are important to help gauge the value of our products, the professionalism of our service and the quality of our interaction with clients.”

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Reflecting on her experience building RentCover’s brand, Ms Fox-Slater says a commitment to excellent customer service has been a key part of the product’s success.

Beginning her career in the insurance industry more than 20 years ago with the RAC in Western Australia, Ms Fox-Slater later moved into broking, working for Sullivan Stone Purslowe Insurance Brokers. Initially concentrating on claims-based work, she later gained experience in personal lines broking.

In 1993 she joined EBM as an assistant to the manager and moved into the role of managing RentCover a few years later.

At the time, EBM had no formal east coast representation and Ms Fox-Slater was charged with the responsibility of establishing EBM’s first office outside of Western Australia.

Moving from Perth to Melbourne just over a decade ago, she lists the experience as one of her proudest achievements for the company.

“When I moved to Melbourne we literally had nothing and were starting from scratch. I had to rent office space, source office furniture, the lot,” she said.

“In the early days it was just me representing EBM in Victoria. Today we have 40 staff in the RentCover Division here which has been quite a rapid growth of the RentCover team.

“During this time, RentCover has continued to develop and prosper and we are constantly reviewing our systems and procedures to ensure that we are at the forefront of landlords’ insurance.”

As well as establishing EBM’s east coast presence, Ms Fox-Slater lists the introduction of the Financial Services Reform Act (FSRA) as another major challenge faced during her time at EBM due to the logistical changes the new Act required.

“The introduction of the FSRA was a huge event for everyone in the broking industry,” she explains. “RentCover was one of the products most affected by the changes in the legislation and, at the time, we had more than 3,000 real estate agents listed as clients.

“This involved a massive logistical effort to update the registrations process to stay in line with the Act, especially for our clients in regional areas.”

Speaking about trends impacting the future, Ms Fox-Slater said one major change she has seen the insurance broking industry go through is the increase of women in senior roles within the industry.

As a qualified practising insurance broker of the National Insurance Brokers Association of Australia (NIBA) and a senior associate of the Australian and New Zealand Institute of Insurance and Finance, Ms Fox-Slater became the first female fellow of the NIBA which represents insurance brokers and broking firms.

She has also been nominated again for the Telstra Business Woman of the Year, describing the honour as a surprise.

“a bit of a surprise, but what is more important is that we are seeing more women take up senior positions within the industry,” she said.

“After more than 20 years, I’m now more aware of what can be achieved – and relishing the opportunity.”
The rise and rise of the first homeowner

First homebuyers are continuing to drive residential property sales, fuelling a boost in home loan volumes and construction activity around the country.

Historic low interest rates, the First Home Owners Boost and various state government incentives have been strong factors driving homebuyers into the market.

Figures released by the Federal Government show the funding increase has delivered a major boost to the housing sector with more than 42,000 Australians taking up the First Home Owners Boost by the end of February.\(^4\)

According to the Australian Bureau of Statistics, the number of commitments for owner occupied housing finance increased 2.5% between January 2009 and February 2009.\(^5\)

Of particular note however, the number of first homebuyer commitments as a percentage of total housing commitments increased marginally from 26.5% in January 2009 to 26.9% in February 2009, the highest proportion since 1991.

Under the First Home Owners Boost, first homebuyers who purchase established homes have their grant doubled from $7,000 to $14,000; and first homebuyers who purchase a newly constructed home receive an extra $14,000 to take their grant to $21,000.

Federal Housing Minister Tanya Plibersek said figures showing increased activity by first homebuyers confirm what builders all over the country have reported – that the First Home Owners Boost has had a significant positive impact on their businesses.\(^6\)

However, some commentators including Commonwealth Bank Chief Ralph Norris have warned that the Rudd Government’s first homebuyer grant could lead to a residential property ‘bubble’ if it became a permanent fixture in the housing market.

Mr Norris and others warn that such a move could tempt borrowers with little capacity to repay debt to enter the market.

And as the June 30 deadline approaches, the housing industry remains optimistic that the incentive scheme will be extended, despite comments from the Prime Minister indicating otherwise.

EBM General Manager Ward Dedman said while the ability of new homeowners to meet their housing repayments is an important consideration, thought must also be given to their ability to properly fund owners insurance.

“Maintaining adequate protection for home and contents is important for all property owners but particularly crucial for first homebuyers,” Mr Dedman said.

\(^4\) Minister Tanya Plibersek, More than 42,000 Australians take up First Home Owners Boost, 01/04/2009.
\(^6\) Minister Tanya Plibersek, ABS data shows record number of first home owners entering market, 08/04/2009.
“Buyers in this segment of the market may have secured finance for a greater proportion of the value of their property and may be devoting a higher percentage of their income to meet their mortgage repayments.

“As such, they are particularly vulnerable if and when unforeseen accidents occur and they suffer damage or loss to property.

“With more and more first time buyers entering the market, it is essential that they have access to all available insurance options to protect themselves and their new asset.”

Mr Dedman said EBM offers a comprehensive range of insurance options for homebuyers, whether the property is owner occupied or purchased as an investment.

“Insurance is a critical part of the budgetary process for any homebuyer and especially for first-time buyers keen to minimise their risk,” he said.

**Rise in insurance premiums expected this year**

Australian businesses are being warned to prepare for a rise in the total cost of insurable risks this year.

Australian-based business analyst IBISWorld’s recent report, *Keeping out of trouble: Opportunities for 10 industries under the pump*, suggests general insurers can expect a year-on-year revenue decline of 1.8%. As such there will be increased pressure to raise premiums.

“Insurers’ bottom lines continue to take a battering as higher claims weaken underwriting profitability and the financial crisis continues to vaporise investment earnings,” the report said.7

Echoing these predictions, in its latest summary of the Australian insurance market, Allianz Australia suggests that a number of recent factors, including a period of large weather event losses and falling investment returns have brought the period of low premiums to an end.

“These significant events have resulted in substantial losses to insurers and reinsurers and as a result insurers are facing higher reinsurance costs,” Allianz said.8

EBM Managing Director Jeff Adams says while large spikes in premiums are not expected, it is anticipated that the market will experience hardening conditions as insurers take insurance, financial market conditions and other factors into account in their pricing decisions.

“In recent years, the industry has gone through a ‘soft’ market phase, meaning insurance premiums have been typically low as a result of strong competition,” Mr Adams said.

“The market is cyclical and we are beginning to see a return of ‘hard’ market conditions where premiums tend to be higher. However, due to the relatively stable nature of the local industry, it is anticipated that a firming of premiums in Australia will be less severe than in other countries.”

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7 IBISWorld Reports, *Keeping out of trouble: Opportunities for 10 industries under the pump*, April 2009.
Mr Adams advised all businesses that in the current market, it is increasingly important for clients to work proactively with their broker to ensure their organisation’s risk profile is optimised and the level of cover is appropriate for their needs.

“Ensuring that your broker is kept up-to-date on all aspects of your business will help maintain appropriate levels of cover while minimising the impact of any potential increases in premiums,” he said.

**EBM offer a good foundation for cosmetic industry cover**

Natural cosmetics are a growing industry in Australia, with many thousands of individuals now producing their own products for sale.

From perfumes, lotions, balms and scents, the natural cosmetics industry is highly varied and encompasses small producers selling their products at outlets ranging from market stalls through to sophisticated retail outlets.

Typical products manufactured can include body scrubs, lotions, shampoo, even insect repellents and exfoliating products.

Underlying economic, demographic and social trends suggest the industry can expect continued growth in years to come. With an ageing population and changing attitudes to skin care and holistic wellness, increased demand for natural cosmetic products has seen a growth in the number of producers who source raw materials and then manufacture their own products.

As the preferred broker of the Sydney Essential Oils Company, EBM has become the broker of choice for many within the cosmetic products manufacturing industry.

EBM Victorian State Manager Gino Renzella said manufacturers of cosmetic products have specialised insurance requirements.

“Our insurance programs are developed exclusively to address the specific needs of this industry and to minimise the risks and exposure,” Mr Renzella said.

“Of chief concern to our clients is third party personal injury protection. This covers them in the event that their products cause injury to consumers, either in the form of a rash, irritation or other action.

“Although many producers are small-volume operators, producing products for a hobby and selling them on the weekends, the importance of having adequate cover remains high. Knowing they are covered in the event that their products causes someone else discomfort gives them peace-of-mind.”

Mr Renzella said the insurance policies provided by EBM can be tailored to ensure the specific client needs are met and their interests protected.

Other insurance options provided to cosmetic producers include:

- building, contents, burglary, glass, stock and business interruption cover;
- travel insurance - beneficial when delivering or promoting products;
- general property loss or damage to property such as tools, equipment, laptops and other portable property; and
• income protection of up to 75% of the gross income in the event clients are unable to work due to illness or injury.

EBM’s cover of the cosmetics industry is limited to those products that are certified natural – i.e. those that include natural raw materials as opposed to processed materials.

For more information about EBM’s range of insurance products for the cosmetic industry, visit www.ebminsurance.com.au.

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@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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