Insurance Insight

EBM

INSURANCE INDUSTRY NEWS AND VIEWS FROM EBM

Welcome

Welcome to the May–June edition of *Insurance Insight*.

Look up in the sky. Is it a bird? Is it a plane? No, it’s a drone. As regulations around flying commercial drones become more relaxed, and the cost of equipment steadily drops, more and more businesses are tapping into the technology. While drones can represent great opportunities for a number of industry sectors, there are risks looming overhead. We explore the opportunities, the risks and risk mitigation in this edition.

As we hurtle towards the end of the financial year, many will take time to review their finances and insurances as they prepare both individual and business tax returns. One area where some may find their cover lacking is in personal insurances. When it comes to life, disability and income protection, Australians, by and large, are woefully underinsured. To help our clients ease the financial burden, should disaster strike, we’ve teamed up with AIA Australia to offer MaxLife life insurance – a new and affordable personal insurance product which delivers a rankge of cover options to help ensure your lifestyle, assets and loved ones are protected.

And speaking of EOFY, time is fast running out for ABN holders turning over less than $10 million to take advantage of the Government’s $20,000 instant asset write-off scheme this year. EBM Finance can help SMEs secure loans to purchase plant and equipment before FY18 comes to a close.

We welcome your feedback and invite you to **contact us** to discuss your unique risks and strategies to help you manage them effectively.

Ward Dedman, Managing Director (Group Operations)
Steve Sparkes, Managing Director (Corporate Broking)

WORKCOVER UPDATES

WorkCover Western Australia

Increase in premium rates

WorkCover Western Australia has recommended an overall average 3.9 per cent increase in premium rates for compulsory workers' compensation insurance for 2018/19.

The average recommended premium rate would be 1.585 per cent of total wages for 2018/19, up from 1.525 per cent of total wages for 2017/18, representing an overall increase of 3.9 per cent.

It is noted that the increase will not be applied uniformly across all premium rating classifications and there will be decreases in some premiums.

These changes take into account the latest available claims data provided by insurers, as well as broader economic factors such as movements in interest rates and wages.

The new rates, announced by WA Acting Chief Executive Officer Chris White, come into effect at 4.00pm on 30 June 2018.

Please be aware that the gazetted rates are only 'recommended' and individual risks may attract higher or lower rates depending on specific claims experience.

Workers' compensation is complex and EBM is here to assist you, as well as guide you through the process in the event of a claim. Please contact us for assistance.

WorkCover Tasmania

Employer excess removed

The obligation for employers to pay any excess on workers' compensation claims with a date of injury on or after 1 January 2018 has been removed.

Correction: In the January 2018 edition, it was noted that the removal was linked to the policy renewal date. However, this is not the case. This obligation no longer applies, regardless of the date of the policy.

For further information, please contact Frances Cook in our Sydney office on 02 9276 6999 or email francesc@ebm.com.au.

EBM's specialist Workers' Compensation team

EBM can assist you with every aspect of your workers' compensation and injury management requirements, please contact us to see how we can help.

GAME OF DRONES

The use of drones is becoming more and more popular in a number of industry sectors, but along with the advantages come risks.

The sky is the limit: don't be grounded by risk

It was less than 20 years ago when drones were developed for military purposes. The application of the technology soon moved into the public realm where it was tapped for exploratory and scientific purposes – and the use of drones was heavily regulated and licensed. In Australia, operators were required to hold both a Remote Operator's Certificate and a Controllers Certificate, which proved a barrier for many aspiring operators.

The Civil Aviation Safety Authority relaxed regulations around commercial drone use in 2016, and remotely piloted aircraft systems (RPAS), or unmanned aerial vehicles (UAVs), are now infiltrating industries like real estate, agriculture and construction. Use of the devices is growing exponentially.

A report by PwC forecasts that the global drone technology industry will be worth US$127 billion by 2020 and Australians will spend an estimated US$3.1 billion on drone-related technology by 2021.

Based on figures from the Australian Association for Unmanned Systems, there are more than 1,200 commercial operators in Australia who hold a Remote Operator's Certificate. In addition, there are 7,700 individuals or companies that provide drone services under the 'excluded category' (which includes any RPAS device under 2kg flown for commercial reasons). And according to the Australian Transport Safety Bureau (ATSB) the number of drones in Australia doubled between 2016 and the close of 2017.

'Commercial usage' can extend to any drone flown for purposes other than sport or recreation, which means that even if the drone is not being flown directly for income or is not the core service of a business, it can still be classified as a commercial operation.

In fact, the use of commercial drones is being evidenced in a number of industry sectors. Early adopters of the technology included the resources, surveying, inspections, risk management, loss adjusting, cinematography, and engineering sectors, together with tertiary institutions and researchers. Commercially to date, drones have mostly been engaged to conduct aerial photography, inspection or survey.

According to aviation insurance specialists, QBE, drone technology is ripe for a number of key industries:

Real Estate
Opportunities exist in the marketing of property with aerial photography and video adding an edge, giving potential buyers/tenants new angles on properties and the surrounding areas to better tell the 'lifestyle' story. There is also growing use of drones to conduct inspections. Drones can get a close-up look at aspects of a property that may otherwise be inaccessible or expensive to survey (for example; requires scaffolding, elevated work platforms, a cherry picker or even abseiling), making their deployment both efficient and cost-effective.

Agriculture
Farmers are tapping into the technology for crop monitoring, scouting trial paddocks, monitoring equipment such as seeders, aerial spraying, irrigation and soil and field analysis. The drones can be used to map a range of different agricultural crops including broadacre, vineyards, horticulture, and orchards. In particular, drones are being used for bio imagery and helping to create normalised digital vegetation index (NDVI) maps, with drone surveillance providing an early warning of crop stress and crop health issues on farming properties. Drone technology is facilitating data-driven decision-making in agriculture, helping farmers better analyse issues which affect productivity and sustainability.

Construction
Players in the construction industry are already taking to the skies and using drones for land surveying, inspecting infrastructure, property and equipment, collecting and reporting data, aerial photography, detecting and monitoring potential hazards and issues on-site, showing progress to clients, investors and/or lending institutions, site security (using surveillance to maintain employee safety or protect the worksite from theft or vandalism), and for keeping track of materials used on-site (often in conjunction with GPS tools).

But what happens after “lift off” and it becomes more a case of “Houston, we have a problem”?

Launching a commercial drone into the skies comes with its own set of risks. Chief among these is the risk of accident. If a drone is operated for any purpose other than sport or recreation, it may attract the risk of strict liability implications under Section 10 of the *Damage by Aircraft Act 1999 (Cth).* This means that the drone operator or owner can be held legally responsible for damage or loss caused by their acts or omissions with no requirement for a third party to prove fault or negligence.

According to a report from QBE, one in 50 drones crash. This equates to one crash occurring for approximately every 2,000 hours of operation. Concerningly, QBE claims data shows crash rates are currently doubling every year (21 per cent compound annual growth rate). With each crash comes the risk of causing bodily injury or property damage. Another risk is that of ‘near encounters’ with other aircraft – a particular problem in our capital cities – and the ATSB is forecasting the number will continue to rise exponentially as more drones share airspace.

Privacy is another factor that drone operators need to take into consideration. As drones are used for surveillance or data collection, they are generally fitted with cameras and/or video recorders and sensors (referred to as the payload). The collection of footage could result in a privacy violation if that footage is used in an ad, broadcast or telecast.

A less obvious risk for piloting drones is that of a cyberattack. Drones collect data which may be of value to a cybercriminal making them a target for hacking. There is also the possibility that control of the drones could be taken and the machines used for unlawful purposes.

Any individual or business looking to tap into drone technology should ensure that they have insurance that specifically covers their use. In the past some general liability policies (subject to minor amendments) could accommodate liability arising from drone use, but now there is dedicated RPAS cover that our clients can obtain.

Ask your EBM Account Manager about RPAS cover, which is designed to address the risks unique to drones – accidental damage, including whilst in use, plus personal injury and property claims as a result of an accident. Armed with the right cover you can launch into the skies and capitalise on the benefits the technology offers.

IT'LL NEVER HAPPEN?

When it comes to life insurance, underinsurance is rife in Australia. Ninety-five per cent of adults are underinsured and the financial burden can be crushing for loved ones left behind.

One in two don't have life insurance

"Don't be morbid", "I'm not going anywhere", "It'll never happen", "I don't want to think about it", "It's on my to-do list but it's not a priority", "It's too expensive", "I have cover through my super" – there are many reasons why Australians are un - or underinsured when it comes to life insurance.

In fact, statistics show 95 per cent of Australians may not have adequate levels of life insurance[1] – leaving their loved ones financially vulnerable should disaster strike.

According to the *Rice Warner Underinsurance in Australia 2015* report, the median level of life insurance met just 61 per cent of basic needs[2] and 37 per cent of the income replacement level[3]. For parents with young children, the underinsurance gap is a far cry from the median level of cover. The report provided an example for a 30-year-old couple with young children: they would need the equivalent of nine to 12 years of income from the higher-earning partner in order to provide basic protection for the entire family; and to attain an income-replacement level of life insurance, the higher-earning partner would need to provide the equivalent of 17 to 21 years of income. The actuaries also found that an average couple aged 40 with children would require life insurance cover of approximately 10 times annual earnings simply to repay debts and maintain current living standards.

There are more than 3.7 million families with children in Australia, according to the ABS's Census 2016.[4] Despite this, new research from finder.com.au has found 50 per cent of parents with children aged 12 or under say they don't have life insurance, with just nine per cent taking out cover in the first five years of their children's lives. In 2017, the Family Protection Survey found 35 per cent of those surveyed said that, if they died, their family would be financially burdened.

"Having children is one of those life events that triggers the desire to secure their loved ones' financial futures", said EBM Managing Director – Corporate Broking, Steve Sparkes.

"Yet, research like this shows that many are actually failing to safeguard their lifestyle by neglecting to cover the most important asset that they have – themselves and their ability to provide for their families."

People often see the value in insuring their personal and business assets against misfortune, and wouldn't dream of failing to protect their home and contents, car, business premises, plant and equipment etc. However, they often neglect to protect themselves with personal insurances like life insurance, disability cover or income protection.

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[1] Lifewise/NATSEM Underinsurance Report – *Understanding the social and economic cost of underinsurance*, February 2010
[2] The minimum required to pay off all non-mortgage debt and sustain living standards until retirement age (65 years) or until children turn 21.
[3] The amount required to replace expected net income and maintain living standards until retirement.
[4] Of the 6,070,316 families in Australia, 44.7% were couple families with children, 37.8% were couple families without children and 15.8% were one parent families.

“When talking about their assets, few Australians cite their income or their capacity to generate it. But our incomes are crucial, without it we can’t pay our mortgages, cover school fees, repay credit cards, invest, pay for holidays or run a car,” said Steve.

“And when we fail to see something as an asset, we have a tendency not to protect it.”

The sad reality is that if a partner or parent passes away, the financial burden can be overwhelming:

- $500,400 – average home loan size[5]
- $4,200 – average credit card debt[6]
- $297,000 – average cost of raising one child[7]

“These are just some of the key expenses many people have that would need to be covered if they were not around. There are also other fixed expenses such as car repayments, insurance premiums, children’s school fees, and household expenditure including food, utility bills, and anything else you can think of that you pay on a regular basis,” said Steve.

“Too often people pluck a random round figure out of the air – say $500,000 or $1 million – without really taking into account all of their personal circumstances and finances. But calculating your life insurance figure is not that tricky, you just need to factor in four variables – age, life events, financial obligations and financial dependents.”

1. Age

As you grow older, build your wealth and begin securing your retirement, the need for life insurance – and your level of cover – grows. The older you get and the more expenses you acquire, the more vulnerable you become without life cover in place.

2. Life Events

When life insurance should be purchased and the level of cover you choose will often depend largely on key life events such as:

- Buying a house
- Getting married
- Having children
- Investing in property
- Saving for a retirement fund

3. Financial Obligations

As you live life, your financial obligations are bound to pile up over time including living expenses, loans and investments. All the costs of living you’re currently paying to support your family could suddenly become a heavy weight on their shoulders if you were no longer around to provide for them. The more financial obligations you’re tied to, the more life insurance you’ll need to ensure the financial security of your family in the future.

4. Financial Dependents

The most common reason people take out life insurance is because they have dependents that rely on them financially such as a partner or children. The bigger your house and the more children you have, the higher the level of cover you may likely need to meet expenses and ensure your loved ones continue to enjoy the same standard of living.

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[5] Report from comparethemarket.com.au, 2018
[6] ASIC, Money Smart website
[7] Suncorp Bank *Cost of Kids Report*, 2016

EBM has partnered with AIA Australia, one of Australia's leading life insurers, to offer MaxLife life insurance– a new and affordable personal insurance product which delivers a range of cover options to help ensure your lifestyle, assets and loved ones are protected. Visit maxlife.ebminsurance.com or call 1800 290 902 to find out more.

Please note the AIA partnership is an alternative to EBM Financial Planning's comprehensive advice, approved products and service offering.

The MaxLife suite of products is issued by AIA Australia Limited (ABN 79 004 837 861 AFSL 230043) trading as MaxLife and distributed by Elkington Bishop Molineaux Insurance Brokers Pty Ltd (ABN 31 009 179 640, AFSL 246986) and its representatives. You should consider factors like your objectives, financial situation and needs and read the relevant MaxLife Product Disclosure Statement available on this website before deciding to acquire or continue to hold a financial product. This information does not take such factors into account so you should consider the appropriateness of this information in the context of such factors before acting on it. Cover is subject to terms, conditions, limitations and exclusions. AIA Australia has adopted the Life Insurance Code of Practice, which contains minimum standards of service that customers can expect from insurers. The Code can be found at www.fsc.org.au

EBM FINANCE

Take advantage of the Government's $20,000 instant asset write-off before 30 June and claim full deductions for plant and equipment purchases this financial year.

The clock is ticking on instant asset write-offs for FY18

Business groups across the country, including the Council of Small Business Australia and the Australian Chamber of Commerce and Industry, are pushing for the Government's $20,000 instant asset write-off scheme to become permanent. Federal Budget 2018 saw Treasury commit to extending the scheme for one more year. If the measure is passed by both the House of Representatives and the Senate, small businesses will have until 30 June 2019 to take advantage of the write-offs. Businesses wanting to ensure they can access the scheme, as the extension is subject to approval, should look at purchasing assets before 30 June 2018.

The scheme was introduced in the 2015 Federal Budget to encourage small businesses to spend more on equipment by allowing them to claim the full depreciation on income-producing assets purchased, up to the value of $20,000, rather than claiming deductions over a number of years.

The instant asset write-off scheme has been embraced by businesses turning over less than $10 million annually. According to Treasury figures, in the first year of the scheme, 99,000 businesses took advantage of the write-offs, claiming a total of $415 million, up from $165 million claimed in write-downs before the introduction of the scheme. A further 50,500 businesses used instant write-offs in the second year, with the average amount claimed increasing from $4,000 to $9,000.

"The $20,000 instant asset write-off has proved popular with businesses looking to upgrade their plant and equipment. And while the tax break is certainly appreciated by SMEs, many are finding cash flows are restricted, making it harder for businesses to commit to purchasing new plant, equipment or assets," explained EBM Finance Director, Gary Watkins.

According to the *Westpac-Melbourne Institute SME Index*, despite the fact that business confidence remains strong, a quarter of SMEs experience late payments and resulting cash flow difficulties. Around 24 per cent have more than $10,000 in unpaid invoices on their books.

"Even if a business' cash flow is tight, there is still the option to finance the purchase of plant and equipment," Gary said.

"Business investment is on the up. Improved trading conditions and historically low interest rates are also adding to investment confidence.

"The SME Index shows that two in five SMEs increased their investment levels in the past year, which indicates they have a positive outlook and are willing to back themselves."

The Reserve Bank of Australia's April 2018 *The Australian Economy and Financial Markets* report showed there has been an uptick in business investment in machinery and equipment and in buildings, coinciding with steady business credit growth and moderately lower lending rates.

“For many SMEs, conditions and confidence are right to make an investment in the business by purchasing new or second-hand equipment or upgrading their plant. With EOFY fast-approaching, securing finance is imperative if a business wants to take advantage of the instant asset write-off scheme this year, making the services of a plant and equipment finance specialist who understands deadlines a must,” Gary said.

To qualify for the instant asset write-off, the business must have an ABN, turnover less than $10 million per annum and the asset secured must be valued at under $20,000.

EBM Finance works closely will all major equipment financiers, and can secure the best loan, with favourable terms and conditions, to help your business purchase plant, equipment or assets and take advantage of the instant asset write-off without compromising cash flows. EBM Finance can help arrange loans using its low-doc option – these loans allow a business to secure funds without the need to provide financial statements, often at the same low interest rate as if full financials had been supplied. Call us today to find out how.

EBM News & Events

Prowess on the lawn on display!

Bowled over

Crackerjacks were out in force for EBM's annual Corporate Bowls event on 21 March at the stunning Mosman Park Bowls Club.

Despite the temp rising to over 35 degrees, everyone was in high spirits and competition for podium finishes was fierce but friendly.

With the Swan River providing a glittering backdrop, it was a great day out and everyone got the chance to mingle and brush up on their bowls skills.

Congratulations to everyone who participated and a huge well done to our winners and runners-up.

Image: Winners

The winning team – Roy Mellon (Definity Group), Wade Smith (Selected Plumbing), Matt Terry (EBM) and Damon Martin (Selected Plumbing).

Crackerjacks!

News in brief

Data breach exposes personal details

The personal information of more than 400 employees of tugboat operator Svitzer Australia were stolen after the company fell victim to data theft. The breach, involving three email accounts in finance, payroll and operations, saw personal information including tax file numbers stolen. The breach involved 60,000 company emails being automatically forwarded to two external accounts, between 27 May 2017 and 1 March 2018. The company informed the Office of the Australian Information Commissioner immediately it was aware of the breach. It was also revealed that in the first month since the notification requirement came into effect, the Privacy Commissioner had been notified of 31 breaches (almost one per day). Speak to your account manager about Cyber Liability cover to protect your business against the financial fall-out from data breaches.

NSW drivers to get refunds

Over four million drivers in New South Wales will be eligible for a refund of up to $125 on their CTP insurance. Drivers have until 1 September to file for the refund.

SME threats to cash flow revealed

According to QBE's *Business Risk Report*, most businesses see losing clients as the biggest risk to their cash flow (36 per cent), followed by customers failing to pay invoices (24 per cent) and rising costs (20 per cent). Other key risks included power cut, fire or adverse weather events (6 per cent), major client going bankrupt (6 per cent) and losing staff (1 per cent). The report also found 43 per cent of SMEs had no idea about business interruption insurance, while 19 per cent had no insurance at all. Talk to one of our Business Insurance experts about the right cover.

2017 catastrophe losses revealed

According to Swiss Re, total economic losses from natural and man-made disasters in 2017 topped US$337 billion – a near doubling of 2016's US$188 billion. The value of global insured losses from catastrophes reached US$144 billion.

4 out of 5 SMEs don't have equipment cover

Equipment breakdown is the third most frequently claimed line of commercial insurance, according to Vero. However, just 20 per cent of Australian SMEs have their equipment insured for breakdown. Speak to your EBM Account Manager about equipment breakdown cover, including cover for data restoration.

Insolvencies set to decline

Atradius is predicting the global outlook for insolvencies will improve in 2018. Boosted by improved economic conditions, strong industrial production growth, rising international trade and investment, and strengthening labour markets – the credit insurer expects the rate of insolvencies to slow to 3 per cent this year. Get in touch with your EBM Account Manager to discuss Credit Insurance.

Fraudsters jailed

A South Australian couple have been jailed for six years after they were found guilty of "obliterating" their rental property for insurance money. After increasing the insurance coverage on their investment property, the husband and wife had devised a plan to burn down the property. However, when the husband ignited the petrol he had poured throughout the house, instead of simply setting fire to the property, the whole house exploded, with the blast also damaging neighbouring properties.