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INSURANCE TODAY

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CLIMATE CHANGE NEEDS TO BE CONSIDERED

Drought and flooding rains may be the hallmark of the sunburnt country, but over the past few years Australia's uncompromising wild weather has also underlined the crucial need to protect yourself against the risks that climate change is bringing.



Climate change or just a spate of nasty weather? Whatever the cause, insurers are paying out record sums for water-related damage and loss

Researchers suggest that current climate change trends show an increase in severe weather events is likely, with more heatwaves and drought, and more storms and floods.

Industry experts say December's \$400 million Sydney hailstorm and the \$1.4 billion Newcastle floods in June last year indicate a permanent change in weather patterns.

The more cynical might instead suggest these events represent little more than a belligerent yet normal cycle of wet La Nina weather.

At the very least, floods and storms are a reminder of the variable Australian climate, and the role insurance plays in protecting us against the inherent risks.

The past 12 months have already cost the Australian insurance industry an estimated \$2.2 billion in insured losses, according to the Insurance Council of Australia.

And that has an impact on insurers. Between them, Australia's four largest insurers incurred a 27% hit in half-year profits.

The current moderate La Nina spell is scheduled to tail off in the next few months, having certainly made its presence felt in many parts of Australia nearly 20 years after the last strong wet phase between 1988 and 1989.

All this weather activity, combined with Australians' tendency to gravitate towards the coast, suggests that to remain underinsured when homes, contents and businesses are at risk is to run counter to common sense.

While flood is typically listed as an automatic exclusion on insurance policies in Australia, the good news is that we can sometimes have the clause deleted on commercial policies as long as the business is not especially flood-prone.

Aside from the obvious policies that cover plant and equipment,

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OTHER PEOPLE'S RISKS CAN BECOME YOURS

Whatever size or type of business you operate, risk management is a vital weapon in your insurance armoury. And in an inter-connected world, there's no hiding place from the risks brought about by global trends and events.

No matter how big or small your business, what happens in another country could well have an effect on your own company in Australia.

Imagine a bird flu outbreak in south-east Asia. What's the potential impact on your supply chain?

How would a global financial crisis, such as the subprime credit crunch, affect your investments, or your ability to borrow money at a reasonable rate?



When the equine influenza outbreak hit some parts of Australia last year, it affected an enormous number of companies and individuals

If the Australian dollar continues to soar, what's the effect on your pricing strategy? How is your business protected against fluctuations in foreign exchange rates or interest rates?

And it doesn't matter where you fit into the supply chain, it's almost impossible to dodge all the effects of a major problem. Last year's equine influenza outbreak, for example, affected thoroughbred breeders, the gambling sector, the racing industry, equestrian stud farms, caterers, security providers, equipment retailers, transport providers...

Everyone from multimillionaire trainers to boutique importers took a hit from the cessation of racing.

That's where enterprise risk management (ERM) comes in. ERM – the new buzzword in the world of risk management – is all about taking a rounded, holistic look at potential risks by thinking outside the box.

ERM provides a framework for asking those difficult risk questions that many business owners prefer to sweep under the carpet.

Ratings agency Standard & Poor's (S&P), which has been evaluating ERM in Australia for the past three years, rates the local market as fairly well advanced "compared with the rest of the world".

But there's no room for complacency in an increasingly complex business environment, says S&P ERM Director David Ingram.

"If [a firm] takes complex risks or has a tight capital structure, then ERM is important," he says. "And if it takes complex risks and has a tight capital structure, then we think ERM is extremely important."

That includes the vast majority of companies – large or small.

Of course, implementing an ERM system doesn't mean you can then put your feet up and relax.

A company can have the most rigorous ERM standards in the world, but if the directors deliberately violate their own internal standards, it's useless. Failed US energy giant Enron is a classic example of a state-of-the-art ERM framework that was ignored internally.

It's never too late to change your risk management approach. Whatever sector you operate in, whatever size your business, risk management is an integral component of your overall insurance needs.

Give us a call today for help and advice on the best ways to approach a risk management policy with plenty of peripheral vision.

Standard & Poor's divides ERM into five categories:

Risk Management Culture – Staffing, infrastructure, reporting to the board.

Risk Control – Pricing, cycle management, tracking, feedback, business continuity.

Strategic Risk Management – Taking information for risk control and rolling it out across the enterprise to establish risk rewards for each part of the business.

Emerging Risks – Influenza pandemic, environmental scanning, contingency planning.

Risk Models and Economic Capital – Are models at the appropriate level of complexity for the complexity of the risk?

TRAVEL INSURANCE ISN'T SIMPLE

Each year, Australians make more than 5 million overseas trips. We're the world's most travelled people, and we take many hours planning our travel. So why are we so light-hearted about the sort of risks we might face in another country? Do you know what you're covered for under your travel insurance policy?

The Insurance Ombudsman Service routinely deals with claims dismissed by travel insurers because the applicant was unaware they weren't covered for specific risks.

In May last year, a woman was forced to return home early from her round the world trip after a debit card – which had been stolen from luggage missing at an airport for a day – was used to empty all her funds.

Her claim was rejected on the basis the luggage section of her policy excluded cover for loss of cash.

Another woman was due to travel on 23 September last year but on 7 September was diagnosed with bowel cancer.

Her claim for the money involved in paying the cancellation fees was denied as the cancer was considered a pre-existing medical condition, which was not covered by the policy.

The difficulty with covering travelling Australians through a standard policy is that people don't have standard holidays. They do things they wouldn't normally do back home.

An adventure holiday, such as bungee-jumping, whitewater rafting and scuba diving, is now commonplace with young Australians.

Corporate travel also carries its uncertainties. Terrorism, political upheaval and natural disasters are now real risks. So how do you choose the cover that is right for you?

Most people buy their insurance through a travel agent when they are booking their holiday. But can you be sure the agent has sold you a policy that's going to cover the unique features of your travel?

Corporate travel insurance provides benefits that travel agent policies don't normally provide – for any or all of your employees.

These usually include cover for pre-existing medical conditions, baggage without depreciation, loss of money or deposit, kidnap and ransom, terrorism, loss of income, and evacuation due to political or natural disasters – many of which are an integral part of corporate travel.

Most retail or travel agent policies don't provide those covers, and major civil disasters the recent earthquake in China and the



Corporate or tourist travel. the problem is the same: how do I know I'm properly protected?

cyclone in Burma show just how important such cover can be.

The Department of Foreign Affairs and Trade says travel insurance is a basic necessity.

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“Every day our consular officers deal with human tragedies involving the death, injury or hospitalisation of Australians abroad,” a department report said. “Each year we handle over 20,000 cases involving Australians in difficulty overseas.”

The Insurance Ombudsman says travellers may be surprised to know many policies do not include items stolen when left unattended in a public place, or cameras, computers, mobile phones and jewellery, unless they are carried on the person. Then there’s the issue of property and cash left in vehicles.

If you haven’t checked your travel insurance policy closely, you may find that conditions, limitations and exclusions will turn a frustrating or harrowing experience into an extremely costly one.

Talk to us about your travel plans. And if you’re travelling on business, your standard “holiday” policy is probably inappropriate. You really do need the best possible cover for the circumstances you’re traveling under, so put us on your list of “must-do” travel preparations.

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a business interruption policy is one example of the protection that exists to cover commercial clients in the event Mother Nature makes an uninvited call.

A business interruption policy will cover losses if damage from a storm makes it necessary for the business to stop trading. When this happens, the policy may just prove to be a lifeline.

Just ask the business owner in Newcastle, New South Wales, who was a very relieved man when he learned he was covered not only for stock and equipment but also lost trade after floods wiped out his business last year.

“If our broker hadn’t talked us into that business interruption policy I don’t know where we’d be,” he said.

It’s a good news story, but widespread floods also have their victims.

Consider the flood’s effect on the underinsured and uninsured traders of the Newcastle suburb of Wallsend, home to a number of sole proprietors.

A small tweak of the budget would have ensured protection against the high-flowing stormwater, but sadly many had chosen not to have any insurance at all.

These traders were at the mercy of emergency funds from federal and state governments, the safety net of last resort. These funds are by no means guaranteed and may extend only to clean up costs and basic restoration work.

It’s no way to run a business, that’s for sure. Businesses usually require an enormous commitment in time and money from their owners. They should be protected against foreseeable risks. Talk to us about the best ways to protect your investment.

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