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Brokerwise

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Covered or Not Covered

YOUR POLICY AND PDS EXPLAINS

Many ads for insurance products promise to care for and protect you from every imaginable threat. The reality though is that insurance does not and cannot cover you against everything.

It would be great to have a 'cover everything' policy but if it did exist we could never afford the premium. Granted, there is insurance protection for just about every unpleasant event but how many policies do you need in your life for peace of mind?

Obviously, who you are and what makes you tick will provided a few clues as to what insurance protection is necessary for your circumstances and lifestyle. But finding the right policy for your needs and sifting through the fine print to see what's covered and what's not is the hard part. Thanks to government legislation, all insurance policies come with a Product Disclosure Statement (PDS), this is usually a small book of many pages that tells you in reasonably plain English where you will stand in the event of a claim. Given the choice, most people would prefer to read knitting patterns or a parts catalogue of the EH Holden. But read the PDS you should, otherwise you'll be gobsmacked when all hell breaks loose; you make a claim and have it refused. The PDS would warn you about that.

So, with the huge number of policies available to protect us from cradle to grave, how do we know what is covered in the policy we choose? Easy. Look for these key words in the PDS:

- Glossary (Meaning of Words)
- Definitions
- Exclusions
- The Cover
- General Exclusions
- Additional Benefits
- Optional Benefits

After an hour or two (only joking), if still unsure or confused about your policy or the PDS, contact your broker, he or she works for you not the insurer and will make clear what seems shrouded in mystery. ■

Lost in the Flames

THE GOOD TIMES OF A LIFE

A recent house fire claim gave a CQIB broker member pause for thought when he visited his client just hours after the fire was extinguished.

From a business relationship, broker/client, point of view the process was very smooth. The extent of the fire was not as bad as it could have been thanks to quick action by the homeowners and availability of fire extinguishers. The claim was accepted and work on repair and replacement was quickly underway. All's well that ends well? Well, sort of.

Our broker takes up the story:

It was only a relatively small fire – no more than $20,000 damage and no one was injured – but sufficient in impact to cause our client a moderate degree of trauma. In talking with the homeowner at the scene only hours after the blaze, what quickly became apparent is the stress and effect of the uninsurable loss they had suffered and the somewhat shell-shocked feeling she had of "this can't be happening'. This is the part that no amount of money can make better. Yes, the computer can be replaced but the lost photos on the hard drive cannot. We can rebuild the walls damaged in the fire, but can't re-mark the children's heights on the door jamb. After their brush with disaster, our clients will continue to be ever vigilant in avoiding the prospect of a repeat. I know the experience gave me cause to consider the treasure in my home, mainly in the form of family photos and images on computer hard drives. I went home that night, backed up the files and made a copy to take to the office.

An insurance policy protects the tangible and gives financial peace of mind but insurance can't replace people and the tokens of their memories. See your broker about protecting everything else. ■

Supply Chain Risk

AS GOOD AS THE WEAKEST LINK

When three metres of water inundated the Rocklea Markets in Brisbane during the January 2011 flood, scores of businesses including hospitality and factory production lines were left with empty larders and dwindling stock; all were unable to access supplies from one of the most important food supply centres in the State.

The widespread weather events resulted in the loss of almost $2 billion worth of crops. This loss had the effect of a short-term price spike for those food items which usually rely on the established availability and delivery of those crops for production and supply to business customers in the supply chain and eventually to the public.

Australians and Australian businesses did not suffer alone in 2011 from disastrous weather. The Japanese tsunami caused extreme hardship, loss of life and property. Economically and commercially, it forced several of the world's major auto manufacturers, such as Toyota, to scramble for alternative production and transportation capacity - a logistical nightmare. The losses and subsequent challenges also affected the turnover and profit of many of the overseas commercial customers to whom the manufacturers export, including Australian businesses.

Business customers along the line place heavy reliance upon "just in time" delivery of goods (locally, Interstate, nationally or internationally) to successfully transact business and complete the supply chain as contracted and/or expected.

Insurance solutions can only provide some comfort to those who suffer losses; however, good risk management practice would dictate that any solution should consider the risk exposures faced by major suppliers and customers (anywhere in the world) which may have ramifications down the line and affect the successful operation of your business.

Supply chain disruptions can lead to lost orders, negative publicity and loss of revenue. Often another casualty is the reduction of quality control which may increase exposure to product liability claims.

The supply chain risk is one of the fastest growing risk types for businesses that make, move, store, service or sell products.

Therefore, as part of a risk management plan to minimise risk and adverse effects, businesses should responsibly review and clearly understand their supply chain process including the nature and value of all goods and services, the flow of those goods and services; the identity, activities and locality of major suppliers and customers and others involved; identification of risks faced by the business directly (or indirectly due to loss suffered by others in the chain), and the analysis of the degree of potential exposure to each such identified risk.

It is wise, and indeed necessary, to extend our focus beyond the physical boundaries of our own businesses and properties e.g. the above mentioned possible exposures to worldwide major customer and supplier losses that may interrupt your business and revenue stream; or increased exposure to liability which may attract the need for customised cover and adjusted sums insured and deductibles to suit your current needs.

For insurance to solve some of the problems that businesses face, the policies must effectively transfer much risk from you and your business to the insurer. You need to understand the insurable risks covered by your insurance programme and how it will respond to a loss you may suffer from a supply chain disruption.

Discuss your risk management review and plan with your insurance broker to ensure adequacy of insurance cover or the need to upgrade to achieve a more encompassing and effective insurance solution. ■

Flood Catastrophe: January 2011

CAUSE, EFFECT AND RECOVERY

To listen to the media and some politicians calling for their blood, you'd be forgiven for thinking the recent flood catastrophe was all the doing of the insurers.

Logically, no one could blame the insurance industry for causing neither the flood of 2011 nor the effect of its devastation. The main blame surely lies with a bizarre series of natural disasters – floods in Queensland and Victoria, Cyclone Yasi in FNQ, storms in Victoria and bushfires in WA. In the aftermath, when the numbers were counted, more than 186,000 claims with a value of $4.2 billion had been made. The sheer volume of claims created even more logistical problems.

Much was made in the media about 'insurance' being unwilling to pay up. Truth be told, there were many policyholders claiming millions for flood damage they hadn't actually been insured against. Although many were genuine claims from people who thought they had cover, a review of the Product Disclosure Statement that came with their policy would have made clear precisely what event was covered and what was not. (It's a sad fact that only 8% of insured persons bother to read this crucial document).

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Flood cover has always been optional. People who live high on hills don't need it, those on the flat probably do but many elect not to have it because (1) they don't want to pay a higher premium for flood extension cover and/or (2) they can't remember the impact, or were not around, when the property last flooded and prefer to risk it in return for a lower premium.

The causes of the disasters, and their heartbreaking effects, have many contributors, both natural and human, and no doubt the blame will be apportioned as the official enquiries deliver their findings. In the meantime recovery and rebuild commenced and continues still with the insurance industry at the forefront. Yes, there were hiccups because the magnitude of the recovery task was massive. How do you think your business would cope with:

- Receiving 12 months work in 4 days.
- A deluge of customers all wanting priority attention.
- The majority of your firm's offices unusable due to lack of power.
- Many of your employees personally flood affected and unable to work or even get to work.
- Your firm unable to hire off-the-street help as legislation demands qualified staff.

By June 2011 more than 99% of all residential claims had been dealt with. Fast forward to summer 2011 and Queensland weather forecasters are again predicting high rainfall with warnings of possible flood events.

What if the newly repaired homes are inundated again? Even if rebuilt to modern standards, there are some homes in some locations sure to flood. Who then is responsible for building homes in these flood prone locations in the first place? The insurance companies? Or are the developers and councils who give building permission to blame? And what about the absence of up-to-date flood maps? Or the responsibility of authorities in charge of handling and timing of water release from dams?

Clearly, it wasn't just an insurance issue when many sectors of community, state government and local councils contributed in some way to the impact and effect of the Queensland floods. The insurance industry was merely the soft target for the fury dished out and aggravated by the media.

As dark skies threaten once more, no doubt many disaster plans across the land have been revisited and revised. Lessons not learned are invariably repeated. ■

Information Overload!

You may sometimes wonder why the Insurance Industry seems hell bent on loading you up with paper and information every time you take out a policy or even get a quote. It might seem that your broker and insurers have a secret desire to clear forests of paper producing trees or, if you receive this information electronically, to rid you of all your computer storage space.

> Believe it or not, the insurance industry has no control over this information deluge.

Back in 2001, the then Federal Government enacted legislation called Financial Services Reform Act 2001 (FSR). It was designed to put into place a regulatory framework which governed the licensing, disclosure and conduct of all financial service providers. (You may recall the collapse around that time of a major insurer, HIH Insurance).

Under FSR there are two key disclosure documents that financial services providers are required to issue to retail clients*. These are:

- A financial services guide (FSG) - which sets out the types of products and services the licensee is able to provide and the relationships it has with its suppliers;
- A product disclosure statement (PDS) - designed to provide consumers with sufficient information to make informed decisions in relation to the acquisition of financial products, including the ability to compare a range of products. It contains information such as:
- the name and contact details of the issuer (or seller);
- significant benefits, risks or other features of the product;
- the cost of the product and amounts that will or may become payable after its acquisition;
- any commissions or similar payments that may impact on the return to the product holder;
- dispute resolution procedures; and
- cooling-off rights.

So next time you are overwhelmed with paper or information about an insurance product, please don't 'shoot the messenger'. Your broker is just complying with the law. ■

*The Act defines Retail Clients as: Individuals or a small manufacturing business employing less than 100 people or any other business employing less than 20 people, that are being provided a financial service or product that relates to the following insurance covers: Motor Vehicle, Home Building/ Contents-Personal and Domestic, Sickness and Accident or Travel, Consumer Credit and other classes as prescribed by regulations.

Increased liability

DIRECTORS ON NOTICE

Times are getting tougher for company directors with moves in various areas by government to expand directors personal liabilities in certain circumstances. We discussed in the last edition of Brokerwise the increased penalties for directors imposed by the new national harmonised occupational health & safety laws being introduced gradually in the various state parliaments. Now, consequent on some changes announced in the federal budget brought down in May 2011, it is proposed that the personal liability of company directors for companies withholding PAYG and superannuation guarantee (SG) amounts from employee wages will be increased.

As an example, the proposed changes can expose directors to personal liability where the company has under reported PAYG or SG withholding amounts where they have mistakenly taken the view that the employee is not an employee but a contractor.

Further, under the proposed changes, directors can be found to be personally liable for the company's unpaid superannuation guarantee amounts in addition to unpaid PAYG amounts. The ATO will be at liberty to commence recovery action if the company's liability remains unpaid and unreported three months after the due date.

Further, the ATO will have the power to prevent directors from assessing PAYG withholding credits on their own salaries if the company has an outstanding PAYG liability.

There are some possible defences to a director's personal liability, for example if the director can prove that they were not involved in the management of the company for good reasons (e.g. illness), or that they took all reasonable steps to ensure that the directors comply with their obligations. Any such defences must be raised within 60 days of receiving a director penalty notice.

It is not a defence for a director to argue that the company had insufficient funds to pay the PAYG withholding amount or the SG amount.

Accordingly, it will be important for directors to be aware of their company's employee and contractor tax obligations.

Further, efforts in recent times to remove company directors from personal liability for debts incurred by a company while insolvent have been unsuccessful.

As always and increasingly so, it is imperative that all company directors look closely at their insurance cover and, if necessary, seek appropriate advice. ■

Wise words FROM SETH GODIN

Are you a serial idea-starting person? The goal is to be an idea-shipping person.

"Big ideas are little ideas that no-one killed too soon."

"The reason it seems that price is all your customers care about is that you haven't given them anything else to care about."

www.sethgodin.com

The articles in Brokerwise are provided as information only. They are not general or insurance broking or legal advice. It is important that you seek advice relevant to your particular circumstance.

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