

## THE UPS AND DOWNS OF THE INSURANCE CYCLE

As the squeeze on insurance premium prices continues, the insurance cycle remains in downturn for the fourth straight year. Signs suggest we are getting close to an upswing, but the signs aren't always foolproof.

The insurance cycle naturally has its ups and downs. Hot market competition can result in a downturn in the cycle, as pressure is placed on insurers to drop premiums to win business. More intense competition leads to larger rate reductions.

Conversely, more demand for insurance and less competition can result in an upturn, when premiums may rise.

Commercial operators are now seeing the effect of the current downturn. At present insurers are open to negotiating good rates on commercial motor insurance, in particular.

The 2007 JP Morgan/Deloitte General Insurance Industry Survey found premium rates in commercial insurance classes fell by an average of around 8% during the June 2007 renewals, while in the domestic classes premium increases were modest at best.

There was an increase in the combined operating ratio for the general insurance industry from 91% to 94%, meaning profitability declined.

How long the downturn will be sustained is a matter of debate. One common view is that the cycle will turn once insurers' returns fall to long-term target levels.

Premium rates will then stabilise and there could be a higher than expected premium in store during the next renewal round.

But this does not always play out. To predict the end of a downturn is to rely on inexact science, because each cycle is different in terms of its magnitude and direction.

Profitability is certainly one key driver of the cycle, yet with no alarm bell to signal the end of a cycle downturn, underwriters



**Commercial vehicle rates are continuing to fall as insurers compete for market share**

must ask themselves the question: how low can I go?

There is not always an easy answer to that question, either! During the last downturn from 1995 to 1998, market conditions forced underwriters to drop their premiums to bid for business. But when premiums got very low underwriters chose to absorb the losses rather than walk away, as you might expect.

Experts say there were other factors unique to that period that suggest today's underwriters will not be able to play the same game for very long.

Already there are signs of insurers breaking ranks on premium rates and refusing to continue the downward spiral.

But the JP Morgan/Deloitte survey shows the turning point may not be far off. Just 21% of insurers said that their fire/industrial special risk portfolio remains profitable and 56% said commercial motor was still a money-maker. These figures were a marked deterioration over previous years.

So when do the experts in the survey predict the cycle to turn up, raising premiums? They say 2009.

We'll keep you posted on any upcoming changes to the cycle.

# SUMMER SECURITY

The summer break is an Australian institution. Whole suburbs decamp to the beach for Christmas and New Year, and, in many cases, most of January right up until the Australia Day weekend.

It's a time of cooking up a storm on backyard or beachfront barbies, long hot afternoons listening to test match cricket with a stubby or two and, unfortunately, burglaries back at home or the office.

The reality is that burglars are more likely to strike when properties are left unattended for any period of time.

More than 400,000 Australian households experience a break-in or attempted break-in each year, according to latest crime and safety survey from the Australian Bureau of Statistics. That's 5% of all households across the nation.

And businesses can't be complacent either. The Australian Institute of Criminology's most recent report paints a bleak picture, with almost half of small Australian retail businesses the victims of crime.

Burglary was the most expensive type of crime, accounting for 35% of total crime costs.

The costs can be prohibitive: a previous crime and safety survey estimated total burglary costs at \$2.43 billion, with an average of \$2000 per incident for residential burglary, and \$4500 per incident for non-residential burglary.

It's all about risk prevention. While we can advise and assist, you're in the best position to know the risks associated with your home or business.

You can't be blasé when it comes to security. There are some obvious precautions you can take to minimise the chance of a break-in.

Carrying out a risk assessment can help. Here is some advice for householders heading off over Christmas and the New Year:

- Cancel your newspaper, ask a trusted neighbour to collect your mail and put out your bin and divert your home phone to your mobile or another number.
- Never leave a spare key outside your house.

- Install a motion-activated light.
- Keep trees trimmed and shrubs low.
- Mark your property – marking your goods makes it easier for you to identify and recover your property and it also makes it much harder for burglars to resell stolen goods.
- List and insure your property – keep a hardcopy list and photographs of your valuable items.
- Lock up your shed and garage and put your tools away.
- Make sure your letterbox is locked to prevent mail from being stolen.
- Install a burglar alarm that is visible from the street, loud and immediately sends a signal to a security service.
- Join Neighbourhood Watch.

Much of this advice is also relevant for business owners. Businesses should also consider issues such as:

- External environment – design, landscaping, lighting;
- Surveillance;
- Boundaries;
- Fencing;
- Strength of the building;
- Doors;
- Locks;
- Access control – keys and key management;
- Card access and tags.



Remember, forgetting to lock windows or set alarms can invalidate parts of your insurance policy.

And don't forget us in your preparations. It's a good idea to discuss with us the types of protection available and ensure you've got your assets secure and covered.

That's what makes for a happy and relaxed holiday break. Enjoy.

# INTERNET PERIL



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The online world is an ever-expanding sphere that, unfortunately, has ever-expanding risks.

From spam to virus attacks and inappropriate email use, the internet poses a security conundrum for many businesses.

More broadly, Internet security can be defined as falling into one of two areas: external and internal risks.

External risks, perhaps surprisingly, are the easiest to define and negate. These include some form of electronic attack such as a virus piggybacking on an email attachment, alterations to a website, or "phishing" scams where a third party attempts to retrieve personal information such as PIN numbers or account details by posing as a bank or other financial institution.

For the 20% of businesses that experience some form of electronic attack each year, the results can range from financial ruin to lost productivity, theft of confidential information or a system shutdown.

According to the 2006 Australian Computer Crime and Security survey, electronic crime cost businesses more than \$48 million last year, with each attacks costing an average \$40,000.

Breaches of online security have fallen from last year – 20% of respondents reported some form of electronic attack in 2006, down 15% from the previous year – but apathy is threatening to unravel progress.

There has also been a decrease in IT security spending since 2005, despite the vast majority being unhappy with their company's level of readiness against unauthorised access.

The threats against small-to-medium enterprises (SMEs) are also evolving. The Internet Industry Association says online cyber-criminals are deploying more advanced means of fleecing their customers, including the use of phishing and more recently "pharming".

This is a more sophisticated form of phishing where the fraudster tailors his email to include personal information about the target to develop greater trust.

While many of these threats can be addressed with technology, insurance is one fail-safe option against cyber-crime the hackers can't penetrate.

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Internal risks are often viewed as the most problematic; business owners can set firewalls, run anti-virus programs, but how can they control human behaviour?

Two recent court cases illustrate the niceties surrounding email use, and abuse.

In *Budlong v NCR Australia*, the full bench of the New South Wales Industrial Relations Commission upheld an appeal by Mr Budlong for unlawful termination on the grounds it was harsh, unreasonable or unfair.

Mr Budlong had been fired for storing 125 pornographic emails over a five-year period. However, the court upheld his appeal, in

large part because the company had only made “limited attempts” to promote its code of conduct.

But in *Queensland Rail v Wake*, the full bench of the Australian Industrial Relations Commission took a different tack by upholding the employer’s decision to fire Mr Wake for saving and sending inappropriate files.

The difference? In the *Wake* case, the full bench found the employer had a clear and well-articulated email policy.

There’s a lesson there for all businesses, large and small. Inappropriate use of IT can expose your business to the risk of online attack. Tell your staff in writing – established employees as well as new recruits – what you see as inappropriate use of your equipment, and make sure they understand it.

## HAIL: A HUGE HAZARD

The greatest natural cause of property damage in Australia isn’t flood, fire or even cyclone – it’s hailstorms.

That’s the assessment of experts at Risk Frontiers, a natural hazards research centre at Macquarie University in Sydney, which is largely funded by the insurance industry.

Of the top 10 disasters (in monetary terms) recorded by the insurance industry in the recent past, one was caused by earthquake, two by cyclone, one by flood and five by hail.

In fact, in today’s dollars those five hailstorms have cost the insurance industry about \$7.6 billion.

The research shows that hailstorms cause 31% of all natural catastrophes in Australia. Tropical cyclones are next at 28%, earthquake 13%, thunderstorms 11%, bushfire 10% and flood 7%.

Hailstorms often aren’t seen as a major natural hazard in Australia because they’re relatively localised. Yet the level of damage can be extraordinary. The hailstorm that carved a swathe through the eastern suburbs of Sydney in 1999, for example, cost \$1.7 billion (\$3.3 billion in today’s dollars).

The amount of damage hailstorms can do is extraordinary – smashed roofs and wrecked interiors of buildings, cars written off, windows shattered and crops ruined.

One of the lessons learned from the 1999 Sydney hailstorm is worth considering: steel roofs were far more effective in resisting hailstones than cement sheet, tile or slate roofs. Even when they had to be replaced due to impact damage, steel roofs had already saved the interiors of many properties from significant damage.

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