



McCormick Harris

INSURANCE

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CLIENT NEWSLETTER

Where business premiums are trending

Nothing worries small businesses as much as cost blowouts, and for the past few years owners have had to juggle with surging premiums while ensuring they don't compromise on critical – and sometimes even mandatory – insurance coverage.

The past couple of years have been dominated by the pandemic, which has affected us all in some way.

In the background economic conditions, workplace challenges and the spectre of inflation have been reacting to all that change.

So here is some news on what's happening in the local insurance market as 2022 kicks into gear.

First, the pace at which premiums have been going up over the past few years is slowing. This should bring some relief to SMEs whose

insurance budgets are probably already stretched to the limit.

The latest commercial rate monitor from Marsh confirms earlier assessments that the Australian market is cooling down. Premium rates rose 13% in the December quarter last year, down some four percentage points from the increase seen in the prior three-month period.

Marsh says the December increase marks the fourth consecutive quarter in which premium rate rises have slowed and the first since 2016 that they are not higher than the global average.

Commercial premiums globally also went up 13% in the December quarter.

Australia property premium rates surged 8%, down from the 11% rise recorded in the third quarter. Casualty, which rose 15% previously, saw a similar

increase in the December quarter. Financial and professional lines price rises also slowed, to 18% from 25%.

But here's the not so good news. Industry leaders don't expect a return to the good old days of what is known as "soft pricing". The reasons? The world has changed. Insurers need to price properly to cover for the rising costs of claims, a more volatile climate and other changing risk exposures.

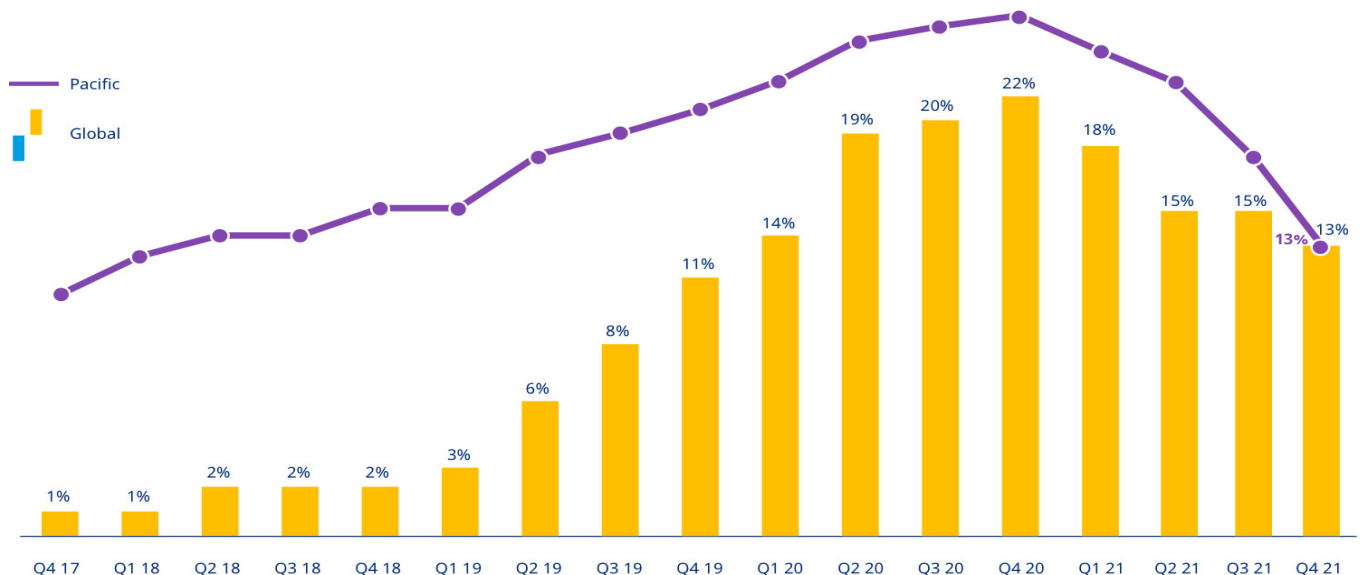
Some believe it's time to stop referring to a "hard market" – what we've been through for the past couple of years – and start accepting this is the "new normal" when it comes to the insurance price cycle.

To sum it up, prices aren't going up as fast as previously, but they're not about to come down much, either. However, with easing of pressures come opportunities to "fine-tune"

different classes of insurance and a greater willingness to consider what are referred to commonly as "hard to place" risks. That will be some consolation to businesses like meatworks and sawmills, for example. Meanwhile, businesses that are considered low-risk will be able to access much better deals than those with significant loss history or those in catastrophe-prone regions.

Then there's tricky lines like cyber insurance, where premiums are still rocketing up due to the rising number of attacks and a resultant steep rise in claims.

We know that's not probably the news you want to hear. But as your broker we want to help you adjust to the "new normal" as quickly as possible, while making sure we can arrange for you the best cover at the best possible price. So talk to us and we'll get on it straight away.



Source: Marsh Specialty and Global Placement

Pacific region (including Australia) composite insurance pricing change



Keep up: insurance cover needs to match any improvements you've made to your home or business

Is there something you've forgotten?

Many Australians seized on the opportunity provided by lockdowns to “fix things up” around their businesses. For some it was merely a chance to improve processes, while for others it meant renovations.

Whatever you've changed is an investment in a more prosperous future. But have you given any thought to insuring these changes?

Whether you've been renovating and/or changing the way you work, how does your insurance stack up?

It's a realistic question because Australia's already severe rate of underinsurance has been exacerbated by so much that has changed over the past two years. Take for example residential construction costs across the country. They've risen 7% in a year – the highest rise in 16 years.

A global supply chain squeeze and an inability to import skilled labour due to border closures has substantially increased the price of timber, metal and plumbing goods and lengthened the time it takes to complete a rebuild.

That means the cost of rebuilding your home or business premises if they are lost or damaged has also risen. And if you haven't talked to us already, it's highly likely your insurance cover is now inadequate.

If your insurance policy covers less than the true cost of replacement – regardless of the original amount you paid for your business premises or home – you're very likely underinsured.

Research suggests as many as two-thirds of Australian homes are underinsured. With SME businesses it's likely to be far worse.

With costs continuing to rise, it's vital you reassess. It's not something your insurer can advise you on. Luckily for you, your broker can.

For businesses in particular, it's not just a total loss scenario that you have to worry about.

Many policies accept 80% cover of the replacement value without penalty. Below this figure the insured risks having an “underinsurance penalty

calculation” applied, which could see the claim payout fall short of replacement costs.

This was brought to light in a recent case heard by the Australian Financial Complaints Authority in which underinsurance left a business owner out of pocket at claim time after the property was damaged in a fire.

That building was underinsured to the tune of around \$250,000, and so an underinsurance clause was proportionately applied to the claim payout. The business owner's complaint that the insurer should have advised her of the correct level of cover was not upheld, with the independent ombudsman explaining that insurers can only provide general advice and it's the customer's responsibility to read and understand the policy.

The Insurance Council of Australia urges Australians to “know your worth” to protect your standard of living after a claim. Most underinsured people guess the costs rather than using tools available online such as a building or

contents insurance calculator.

But online calculators have their limitations as well, and for complete peace of mind you should invest in having a professional properly assess your individual circumstances and provide a much more precise estimate of your replacement costs.

Not calculating the cost of demolition, clean-up, asbestos removal, council applications, architect and surveyor services – and for householders even the cost of temporary accommodation, along with things like the garden shed and even the lawnmower – should be factored in.

The spate of floods, fires and storms in the past year should make the importance of properly insuring your business clear enough. Yes, it's likely to cost more, but not so much that the likely trauma of a hefty shortfall can be ignored at claims time.

So if you haven't already, talk to us now about the things that have changed for your business. We're here to help you get it right.



Help is at hand: brokers can relieve the stress at claims time

How to stop worrying when you make a claim

It's simple. Get the experts to sort it out for you. And we're experts.

But going by some of the headlines you read in the mainstream media, you could be forgiven for thinking that insurers will try to weasel out of paying claims at every opportunity.

Barely a week goes by without someone telling a sob story to their local newspaper or TV programs like A Current Affair about how an insurer has let them down in their hour of need.

The truth is that very few claims are knocked back. The vast majority are paid promptly and with very little or no issues. Our industry does stand behind its customers when disaster strikes, and the statistics prove it.

For example, a recent ASIC review of the Black Summer bushfires of 2019/20 found that 99% of claims were paid out in full or in part.

Where people do run into trouble is when the policy doesn't match the risks the insurer has agreed to cover, or the sum insured is inadequate to replace or repair the asset.

Let's face it, no matter how much insurers attempt to simplify their policies, insurance remains complex and challenging for business owners. And as the business world becomes more complex, the risks you need to insure against have become more varied.

For example, who would have thought just five years ago that cyber insurance would become a mainstream business insurance product to counter increasingly skilful international criminals?

As your insurance broker, we spend a lot of time researching and learning about emerging risks and the economic environment so we know how to deal with all the challenges that come your way. What we should

also highlight is our expertise in dealing with any claims you have to make.

At claims time we stand by our customers and represent them to the insurer. The more complex the claim, the more you'll value our services. It's our job to get that claim sorted as quickly as possible, while you get on with running your business.

On those rare occasions where insurers do get it wrong, or there's queries about details, we'll be there to fight your corner and make sure your claim is dealt with properly.

We can help put your point of view clearly to the insurer, and usually that's where it stops. If necessary, the Australian Financial Complaints Authority – the referee for disputed claims – will make a decision that's binding on the insurer.

And research shows that claimants who have a broker to

help them through the process find the whole thing less confronting.

Vero's annual SME Index research shows that 72% of clients using a broker are satisfied with the claims process, compared to just 37% of those who try to navigate it themselves. That's a pretty stark difference.

You won't make an insurance claim very often – but when you do, it's vital that everything goes as smoothly as possible.

So don't be put off insurance when you read those claim horror stories in the press. They often don't tell the full story and there are sometimes legitimate reasons why a claim hasn't been paid.

But do let us help you to sort out the circumstances you are covered for, and to help you through the claims process should the unthinkable become reality.



Preparation is key: reducing your risk of cyber attack can open the door to affordable premiums

Cyber premiums are rising: here's what you can do about it

In survey after survey, the answer from business executives is unanimous when asked to name the risk they fear most: cyber attacks.

The latest Allianz Risk Barometer found 41% of respondents in Australia rank digital incidents such as breaches, IT failure and ransomware crime along with business interruption as the joint top business perils this year.

Cyber security experts are hardly surprised at the findings. Online crime has been growing exponentially in recent years and worsened significantly during the pandemic because of the almost overnight shift to remote working.

The number of ransomware attacks has exploded since the

onset of covid, with hundreds of Australian businesses of all sizes and in all industries falling victim to extortion attempts.

The average cyber claim severity has risen to 3.15 times the 2017 average with ransomware incidents representing 31% of claims.

As a result, cyber insurance premiums have risen sharply to meet the growing cost of claims and the increasing risk. And we expect premiums will continue to rise because the severity and frequency of ransomware claims and other related digital incidents are not expected to ease.

For small businesses, obtaining cyber insurance is going to become more difficult. It is not just rising premiums SMEs have to deal with – they must also

demonstrate to insurers they have proper security measures in place to protect their IT infrastructure.

If there are no safeguards, or if they're outdated or inadequate, the chances of finding an insurer willing to take on the risk are not good.

Many insurers now expect businesses to demonstrate that the security measures they have installed are effective and up-to-date, which can be a big ask as most small businesses aren't going to have a dedicated in-house IT security team.

But there are many steps SMEs can take to satisfy insurers' cyber underwriting criteria.

Many guides are available to help businesses navigate the cyber challenge, setting out a

list of actions they can take to protect their IT systems.

Mitigation is key. As your broker, we understand how your business operates and what you need to do to keep it running securely and smoothly.

We're in the business of helping you manage all the risks you face – cyber included.

In fact, we've been advising many clients on cyber as it has grown to become a significant risk. And we know what insurers want.

Talk to us now and we'll help you work out a cyber security plan for your business so you get the best cover at the best possible rate for your business.

This isn't a risk you can shrug off as unlikely, so don't delay.



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