



# McCormick Harris

## INSURANCE

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CLIENT NEWSLETTER

## Supply chain pain - the impact on claims

The covid pandemic and war in Ukraine have wrought havoc on global supply chains, and this can have a significant impact on how insurance claims are handled should disaster strike.

As insurance brokers it's our job to help you through the claims process, but also to warn you in advance of any likely complications.

So, let's start at the start.

Claims timelines are certainly being stretched at the moment due to shortages of materials and parts – that's a global problem, too – but also as a result of hundreds of thousands of catastrophe claims that insurers are working through.

It's a massive exercise after the record-breaking eastern states floods, but insurance is there to deal with catastrophes on any scale. If the policy responds, insurers will always pay their claims, and we're here to make sure your claim is handled professionally and properly.

But be aware that right now the claims process is overloaded, so it's taking longer than normal.

If your property is damaged, in many locations you'll find the wait for tradesmen to arrive is going to be a long one.

There simply aren't enough tradesmen to match the massive number of damaged

businesses and homes that need repairs or rebuilds. The Insurance Council recently confirmed that average rebuild times following the floods catastrophe have blown out to 14 months. This could mean that your business is out of action for longer, so there might also be a knock-on effect to your business interruption cover.

For residential properties, there are implications for temporary accommodation entitlements, which are usually restricted to a 12-month period.

The claims crunch is also affecting vehicle repairs in many instances, with spare part supply problems plaguing the smash repair industry.

It's an issue that again affects businesses if they find the replacement vehicle they need to buy isn't going to be available for months, either.

Waiting lists for cars, and particularly commercial vehicles, are growing and sometimes stretch to a year or more, so if your business relies on vehicles, you could be left exposed.

Many of these issues are outside insurers' control, but it still pays for you to be aware in advance so that

contingency plans can be made.

You may also need to be open to more flexible ways of getting a claim resolved, such as accepting alternative replacement vehicles or – where it's safe – second-hand panels and other non-mechanical items. Unfortunately, shortages are often accompanied by price rises, and inflation in the construction and motor vehicle sectors is rife.

As a result your sums insured may not be at the level required to allow for like-for-like replacements, and they can get overtaken very quickly. That's why it's vital to talk to us when you're working through challenges like this, so we can be totally sure your insurance cover is set up to respond in the best possible way.

Making a claim is never easy, particularly in the current environment, but we can help you put things in place to make it as painless as possible.

And don't forget – insurance is still vital for your business. There may be frustrations in working through a claim until these issues play out, but leaving yourself open to a total loss is unthinkable.



**In demand: a shortage of builders is slowing down insurance rebuilds**



Bearing the brunt: SMEs often struggle after natural catastrophes

# SMEs hit hard by catastrophes

When natural disasters strike communities, small businesses take the brunt of the economic impact.

That's a sobering finding from a report compiled by insurer IAG, which has found that on average between 65% and 72% of the total economic impact from the 2019 Townsville floods and 2019/20 Black Summer bushfires fell on small businesses.

The economic impact of the Townsville floods was estimated to be a \$2.5 billion reduction in GDP, with the impact on small businesses making up \$1.5 billion of that total.

The economic impact of the Black Summer bushfires was estimated to have caused a \$2.7 billion reduction in GDP, with small businesses in NSW

alone making up \$1.8 billion of that figure.

SMEs are the backbone of the Australian economy and the communities they serve, employing more than 4.7 million people.

But they are also uniquely exposed to natural catastrophe risk, making risk reduction and insurance cover absolutely vital.

That's why you should regularly be in touch with us about your business and its insurance needs.

The IAG survey shows that only 44% of affected businesses in Townsville which had flood cover also had business interruption cover.

Yet more than 60% of impacted businesses needed

to close or reduce operation, with 20% interrupted for 6-12 months.

And 67% of flooded small businesses believed their business was not in a flood zone, while a further 20% opted against flood cover because the business was not on the ground floor or in a basement.

With natural disasters expected to increase in frequency and severity as climate change ramps up, and the impact on small businesses clear, it is vital that business owners prepare properly.

The insurance industry is pushing governments to invest in mitigation measures such as flood levees to reduce the impact of natural catastrophes, but there's a lot that you can do as well.

Carrying out a thorough disaster risk analysis helps you understand the scale of the threat, and insure accordingly.

Regularly reassess dangers and talk to us to make sure that you've got the cover in place that you need.

Ignoring flood or business interruption cover could put you in a very difficult spot should disaster strike.

IAG's report shines a light on the toll that catastrophes can take on small businesses. Don't ignore the warnings – act on them.

We hope you never need to make an insurance claim, but if you do, you'll be glad you took action and talked to us about it.



Be warned: you must tell your insurer about business activity at home

# Mind your hustle: get proper protection for your home business

Living costs continue to rise, forcing more and more Australians to take on additional work to earn a little extra to cope with increased mortgage payments, groceries and utilities bills.

A side hustle isn't unusual anymore – about 857,000 people had more than one job in the March quarter, up more than 27% from five years ago, according to the Australian Bureau of Statistics.

The reasons for this are obvious. Times are tough and getting tougher, with economists predicting it will take some time yet before we start to see a recovery.

The number of Australians who have turned their side hustles – whether it's a hobby repairing computers or a passion baking pastries –

into thriving small business enterprises is only going to rise as they seek to ride out the difficult economic situation.

As your risk adviser, we'd like to be sure that any little side hustles you or family members may be engaging in are properly and adequately insured.

Because even if you're just a one-person operation running only over the weekend or a few hours after your 9-to-5 office job, you face more or less the same risks as that of a small business owner with employees.

Recent cases before the courts and the industry's disputes referee, the Australian Financial Complaints Authority, have revealed that your home insurance could be

compromised if you're conducting a business from home – no matter how minor that business may be – without your home insurer's knowledge.

Side hustlers whose homes have been lost or damaged have been shocked to find their home and contents insurance has been voided because they were running an income-generating activity from the garage, shed, basement or any part of the property.

So you will need business insurance that takes into account the nature of your side hustle, and a home insurer that's aware of the situation.

You will want to be adequately protected against any potential liabilities and not be left out of pocket if

things go wrong. It could be a side-hustle customer seeking compensation for a faulty product or worse still, threatening legal action to get their way.

Why so complicated? Home and contents insurance policies are not designed to cover for commercial risks.

That's why home and contents premiums are usually lower than business insurance.

So if you're a sole trader operating from your home, even if it's just a side hustle, talk to us now. Tell us your precise arrangements and we can make sure you have appropriate cover.

We can work out the insurance you need while you focus on growing your side hustle.



# Code for cashflow - premium funding can help with budgets

With prices for just about everything rising, it's more important than ever to carefully manage budgets and the ongoing costs of running a business.

While many expenses such as utility bills are paid monthly and spread over the year, those coming around on an annual or irregular basis can involve large sums that add to the stresses of managing cashflows.

Commercial insurance is typically one of those annual expenses, but strategies to manage the cost can be considered ahead of time and put in place.

That's been more of a focus in recent years as premiums have increased, while currently renewals are taking place in a business environment that has become more challenging. Supply

chain pressures have fuelled inflation, labour is in short supply, wages are increasing and economists expect interest rates may rise further following a series of upward moves so far this year.

Against that background premium funding, which spreads the cost of insurance over the course of a year through regular instalments, becomes an attractive alternative compared to annual lump sum payments.

Premium funding providers have raised their profile this year with the release of an inaugural industry code of practice that commits to high standards that go above legal requirements, offering greater peace of mind for clients around a financial service that's often not well understood.

The Australian Finance

Industry Association (AFIA) and insurance premium funding working group members consulted extensively on the code, which promotes transparency, clear communication and continuous improvement in customer service.

The code outlines hardship assistance procedures if a client falls into financial difficulties, and sets out rules for prompt and fair resolution of disputes, including through internal and external processes.

The commitments are backed up by the introduction of an independent committee tasked with monitoring and investigating code compliance, ensuring the document has some teeth.

The AFIA says the code is an important tool that protects

businesses, especially small businesses, while supporting competition and innovation.

A number of financial sectors have launched new or improved codes of practice in recent years as they focus on becoming more customer-centric and more pro-active around self-regulation. It particularly makes sense in a volatile economic environment.

With costs rising everyone is looking for the best deals available, but it's important not to cut corners on the most important things, such as insurance, while finding ways to manage cash flows and budgets.

We offer premium funding because we believe it can be a tremendously useful tool in managing risk. Talk to us about how you can smooth out annual premiums.



## McCormick Harris

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