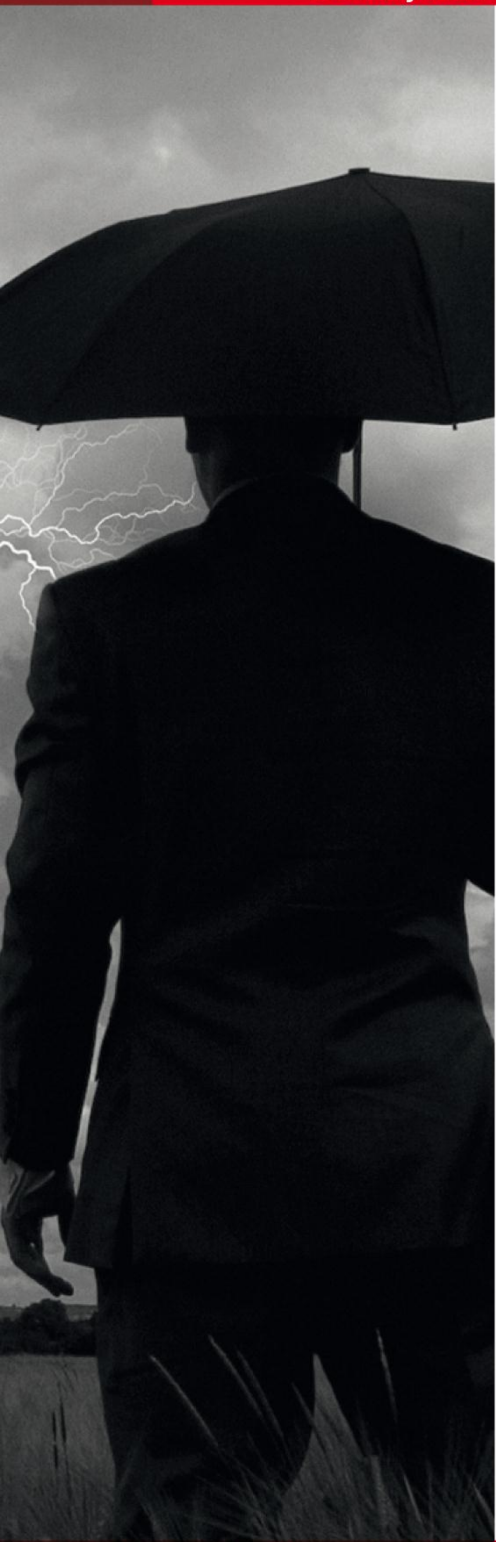
The Rising Cost of Insurance – What to do about it:



According to a recent Global Reinsurance report, total insured losses for the global insurance industry reached an estimated $AUD 80 billion in 2011.

Can businesses afford an Increase in Insurance Risk Protection?

More than ever, the importance of a well considered insurance risk financing strategy is a key consideration.

Beyond a pure transactional approach, the objective should be to optimise value for money and seek a balance between the price of risk (determined by the insurance market) and the financial protection offered by insurance (the insurance coverage).

In the current insurance cycle, the changing balance between insurance protection and affordability need to be reconsidered at the micro level to ensure that the intention of the insurance transaction continues to meet the need – insurance is a promise to:

- Economically transfer the risk of an unforseen event, and
- Once an unforseen event occurs, to provide the policyholder with a sum of money which would put the policyholder in the same financial position that they would have enjoyed, but for the loss.

Numerous insurance industry statistics suggest that the average insurance program **does not meet the true need**, with most purchases made on price and not on quality. This leaves many people under insured and in financial difficulty, when they need to rely on their insurance the most.

So the real question is does the insurance program achieve the promise of providing true protection?

There are two imperatives that all insurance purchasers should do:

1. Engage an expert to model and advise on particular loss scenario's and provide advice as to what this may possibly cost, taking into account individual risk management initiatives – this provides a guide for the nature and limits of risk protection needed;

2. Use this information to match these limits to a tailored insurance program so that the scenario meets the need.

Once the risk is identified, options can then be tailored to seek insurance pricing alternatives for this level of risk.

The pricing of the risk (insurance) must be done after the level of risk is identified in order for the insurance program (risk transfer) to meet the objective and adequately respond to the loss. When insurance pricing is considered first the outcome generally links to a cut back on the insurance coverage in order to save money, which only seeks to reduce the insurance cover and actively works against the principle of what the insurance is intended to achieve.

What to do:

- Budget for a price increase to adequately insure your risk, so you are not caught short
- Better Understand your risk (what do you really need within your insurance program)
- What is ‘Risk Management’ in the eyes of the insurer, and consider how can you can best sell this to the insurance market
- Identify what your top perceived exposures (risks) are, and how will your Business Continuity Plan help to mitigate your exposure
- Engage an expert to help you through this process, in order to maximise your insurance spend

601 Canterbury Road
Surrey Hills Victoria 3127
T 03) 9835 1300
Toll free phone: 1800 245 123
F 03) 9836 9069

Austbrokers Countrywide
ABN 51 586 953 292
www.abcountrywide.com.au
www.abcpro.com.au