



Dangers in Cutting Back

A warning given to SME's in Australia is being echoed by the New Zealand Brokers Association. In tough economic times it is tempting to cut back or reduce covers as a means of reducing direct expenditure.

Insurance Brokers Association CEO Gary Young said, "Insurance is often seen as an area of expense for which there is no direct return. The return however comes from having a loss and these don't reduce in difficult economic times. Normally we see clients looking to cut their cover or raise the level of their insurance excess. The result may seem like a good way to reduce costs but after a loss the savings will sink into insignificance compared to the resulting extra loss a business may suffer through not being fully covered. It is very true that the gamble is simply not worth the taking".

Economy Down – Fraud Up

Regardless of who your preferred financial commentator is, the recession in New Zealand is going to get worse and when times are financially tough the insurance industry takes a bigger hit than normal, with increased fraudulent behaviour.

The common claims involve the number of car fires and stolen, unrecovered vehicles, along with fictitious burglaries and exaggerated contents claims.

Surveys in both New Zealand and Australia before the recession indicate that up to 18% of all insurance claims are fraudulent, and when it is considered that in 2007 claims paid totalled \$1.98 billion, the figures we are talking about is very significant.



Some typical activities that raise alarm bells are when a client is pushing hard for a cash settlement rather than replacement of an item, or when proof of purchase is missing, or when large claims involve unspecified jewellery.

We are strong advocates of specifying jewellery, and cannot stress more strongly that receipts for large value items should be kept, as it is always necessary to "prove a loss".

Business Interruption – Following the Close of a Business

It is a common fallacy that a business is unable to claim for loss of profits, (Business Interruption Insurance), should they decide not to continue trading in the event of a major or total loss. Whilst there can be problems with proving the quantum of loss in the event of winding up a business, a claim can be made essentially given that the settlement does not exceed the amount that an insured may have expected to receive should they have decided to remain in business.

An independent business interruption adjuster will do calculations, (based on business continuance and on the basis that an insured elects not to resume operations), and will recommend settlement to the insurer based on the lesser of the two. The importance of an independent adjuster at claims time cannot be over stressed. That is why we are



Business Interruption – Following the Close of a Business (Cont.)

strong advocates of a reasonable claims policy limit which will pay for independent business interruption specialist's fees.

New Zealand Insurance to make changes to their Rural Portfolio



say the last five years has seen their rural portfolio significantly challenged for profitability, particularly in the areas of property, commercial motor and liability. The increasing frequency and severity of major weather events has greatly effected their rural portfolio as farms in many areas have been extensively damaged by flooding, snowstorms, hail and gale force winds, sometimes more than once a year. Fires in rural areas are also on the rise and with these generally being in isolated areas and difficult to reach, they are almost always total losses.



There have also been large losses in tractor and agricultural implement fires.

Accordingly whilst NZI say they are not relying on premium increases alone to return their rural book to profitability, selected areas, such as milk contamination will attract increases as well as changes to some product wordings, excesses and other terms.



Building/Property Valuations

Many insurers are now insisting on professional building valuations, particularly if sums insured have not changed for some years and if individual values exceed \$1m. At least one insurer has started applying a standard "across the board" 5% increase to building sums insured where the building value has remained static through two or more periods of insurance.

Whilst we acknowledge that in some cases there is a degree of under-insurance, many valuations we have obtained recently have shown a reduction in value, even if the valuation is more than two years old. This is undoubtedly due to the building industry being more competitive in these economic times coupled with the reduction in price of some building materials.

If we believe your property is substantially under valued, or has not been professionally valued for some time, we will raise this with you on renewal.



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