



Holiday Homes

All should be aware that most insurers have conditions applicable to holiday homes that if not complied with, could prove to be a problem in the event of a claim. NZI Insurance for example recently “reminded” their clients of the specific conditions, terms and requirements applicable to their policy which requires:

1. The home must be visited by the owner or a nominated person at least every two months.
2. The property must be adequately maintained.
3. The water supply must be turned off.
4. The mail must be cleared regularly.
5. All doors must be locked and windows secured.



Whilst conditions differ between insurers, they are all generally similar, and if you are doing all of the above then you will have no issues when it comes to claim time.

Fraud – the “victimless crime”

Surveys in New Zealand and Australia have revealed that 10 to 18 percent of all insurance claims are fraudulent – either completely or in some part. When it is considered that claims paid out in New Zealand alone in 2008 exceeded \$1.98 billion, the figures are significant.

Generally companies can expect that two to six percent of revenue is stolen each year through internal fraud. Such fraud can occur through an employee simply “borrowing” money, with the intention of paying it back, but can also be committed by disgruntled employees who feel they deserve the money, the common being false disbursements, false or double invoicing, misuse of credit cards and inappropriate use of a companies purchasing systems.



The key to minimising internal fraud is to be on the look out for red flags and implement strong processes and policy controls to identify how misconduct could occur. Whilst it is possible to insure for employee fraud, (Fidelity Insurance), the cost of the cover, the generally high excess’ and the time involvement when a claim is discovered, suggests that prevention is better than cure and that preventative measures should be put in place to at least reduce the possibility of such losses.

Leaky Buildings – An Ongoing Saga

Water damage suffered by leaky homes is usually both progressive and latent. A recent decision in the High Court in Wellington, (Arrow International v QBE Insurance), highlighted whether such damage triggered a head contractors general liability cover.



Leaky Buildings – An Ongoing Saga (cont.)

The background was that Arrow was the “design and build” contractor for a Wellington apartment complex built between November 1999 and December 2000. In 2003 it was discovered that the complex leaked. The Body Corporate and Unit owners sued Arrow for the repair costs that were estimated at \$9 million. Arrow paid \$5 million to settle that claim after two mediations, but then sought indemnity from QBE of \$3.78 million of that sum that had not been recovered from sub-contractors.

Arrow had a general liability policy that had only inceptioned May 2003, and was renewed to May 2005. In 2004, a building defect clause was added.

The Court found in essence that the “trigger” for the policy to operate required a single “happening” when damage occurred. In this case the damage was as a result of microbiological decay in the buildings timber, which was both progressive or continuous and latent. It was in effect damage caused by “gradual deterioration”.

The claim against QBE was therefore declined as in this case the damage “happened” before the deterioration of the timber became obvious, which was of course prior to the policies inception.

There are a few lessons to be learned from this case:

1. Liability insurance should be taken out promptly. In this case Arrow failed to take out cover until two years after completion of the complex.
2. The correct cover should have been obtained. Contract works insurance usually does not respond to liability claims, and in any event, end on completion of the construction or at least at the end of the maintenance period. A professional indemnity policy may also well have provided some cover to at least part of the original claim.

Unfortunately this is unlikely to be the last word on liability cover for leaky homes claims. The typical occurrence based policies tend to remove all claims for gradual deterioration, plus in recent times insurers have applied what are known as “building defect exclusions”, that make pursuing a claim for such occurrences extremely difficult.

Seasons Greetings

This will be our last newsletter for 2009. In what has been a difficult year economically, the insurance industry has luckily avoided any major local catastrophe, and most insurers are now experiencing a period of profitability which hopefully will bring some stability to the market.



We wish you all the very best for the festive season, and a prosperous, (and hopefully sunny), New Year.

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