



Disclosure and Avoidance

The need to correctly tell your insurer all relevant facts pertaining to a risk was clearly brought home following a recent UK Court of Appeal case where an insurer was allowed to void a policy when a tenant had switched off their sprinklers in the insured landlord's building because he was sick and tired of water damage to his stock from leaks. The landlord knew that the tenant had done this but still advised his insurers when completing his proposal that there was a sprinkler system in operation.



A fire subsequently broke out in the building and the landlord claimed on his policy. His insurers declined his claim and this was upheld by the Court as it was clear that what was meant in the proposal that there was a sprinkler system in operation, when in fact the system had been turned off indefinitely.

Underinsurance

Insurers for some time have been endeavouring to convey the message that it is important that clients are fully covered. It was recently reported in the National press that, "as insurance companies see a rise in burglary claims they believe is linked to the recession, more of their customers are discovering the limits of their contents insurance".

There is no doubt that claims, especially domestic burglary losses increase in recessionary times. People get desperate to make a quick buck by stealing easy to move high value items, or take liberties with business assets to ease their personal financial strain. It is at such times that many find they are seriously underinsured.



A bad time for Financial Institutions

Financial Institutions face an average premium hike of 15% which reflects the significant rise in claims volume resulting from the credit crunch.

Insurers have been hit by crippling claims that included sub-prime related D&O cases, mortgage fraud and professional indemnity claims against the asset management sector. On top of this the uncovering of Bernard Madhoff's \$50bn Ponzi Scheme in the US coincided with the reinsurance





A bad time for Financial Institutions (cont.)

renewal season which produced a “disastrous” situation with many insurers having to submit to the extensive due diligence reporting that capital providers and reinsurers are now demanding.

Sharing the Risk

Following the collapse of the one time AAA financial strength rated AIG last year has promulgated a “back to the future” situation with syndicated risk coming back into vogue.

Larger risk clients are now insisting that their cover be placed with a number of insurers on a proportional basis, rather than as in the past where a single insurer would have provided 100% of the protection. A recent case involved an insurer who had \$100m on a single risk, however this was halved when the client thought it was too much to have with one insurer.

Whilst this case may seem like a high limit of exposure, combining the material damage, (asset), risk together with projected business interruption losses which are now commonly 24 months or more, can easily amount to a high level of potential loss that some clients may seem uneasy entrusting to one single insurer.

Industry Salaries Cut

The high salaries paid to underwriters and brokers, particularly in the US and UK markets, that were previously looked at with envy by local market employees are now somewhat less rosy with mass redundancies, pay freezes and pension cuts.

Average earnings have reduced by 10% for lower level employees to 25% or more for senior personnel. Amongst the large internationals, Aon announced in December that it is cutting 700 jobs, and has frozen salaries for all staff this year, whilst at Willis, pay reviews have been banned until July and the company is offering unpaid leave or partially paid sabbaticals to its associates to cut costs. The New Zealand market fortunately continues in good health although some insurers have instigated a policy of zero staff growth.



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