

INTERNATIONAL INSTITUTE OF LOSS ADJUSTERS INC
END OF YEAR REPORT – AUSTRALIA & NEW ZEALAND REGION

**To: The President & Members of the IILA,
AGM and Annual Convention, Lima, Peru**

It is my pleasure to present the Annual Report for the Australia & New Zealand Region for 2009.

Market & Business Development

The major Insurers in Australia have experienced mixed results in a continuing difficult economic environment and in a period where there have been further extreme weather related claims.

QBE has underlined its resilience to volatile investment markets and adverse economic conditions by announcing a record first half net profit of A\$1.02 billion. QBE's net profit increased 19% from the first half of last year as gross written premium climbed 22% to A\$8.06 billion. Net written premium was up 21% to A\$6.19 billion. QBE gets most of its earnings from its diverse foreign operations and the company continues as a market leader, even in these tough economic times.

IAG has emerged from a year of rebuilding with a net profit of \$181 million compared to last year's loss of A\$261 million. The company has since shed 600 staff and delivered A\$130 million in savings through an internal restructure.

Commercial insurer CGU was hit hard by challenging economic and market conditions, with profits slumping 64% to A\$48 million. Severe weather events have suppressed the profits of Wesfarmers Insurance with a 17% rise in claims, causing its Lumley Insurance arm to record its first underwriting loss in 20 years. Suncorp has forecast a net profit of between A\$340 and A\$360 million, as much as 39% down on the A\$556 million it earned last year.

Supermarket giant Coles has announced it will trial home and car insurance products in its Tasmanian stores. The products will be underwritten by the general insurance arm of Coles' parent company, Wesfarmers.

Nine months after loss adjusting firms McLarens Young Australia and Freemans Australia entered merger discussions, the two businesses have joined forces and as at 3 September 2009 will be known as MYI Freemans. The new entity will have more than 500 staff in more than 80 offices across Australia.

Disasters in the Region

In our last report we noted some of the severe events, such as the Victorian bush fires and flooding in northern New South Wales in March. Unfortunately severe weather events continued and in May there was further widespread flooding in northern New South Wales and Queensland, with the Bureau of Meteorology reporting that the flooding was the worst the region had experienced since 2001. Rainfall of between 400-500mm was recorded. Many towns were evacuated and the Insurance Council of Australia predicted around 10,000 claims would arise.

The final death toll from the Victorian bush fires on 7 February 2009 has been established at 173, and the mammoth task of reconstruction continues. The ICA estimates insured losses at A\$1.2 billion from a total of 10,020 claims received by 30 April. The rebuilding work is being undertaken with a coordinating authority formed, known as the Victorian Bushfire Reconstruction & Recovery Authority. The work will involve reconstruction of over 2,000 homes, 11 community buildings, 59 commercial buildings and nearly 2,400 agricultural sheds and associated structures.

A Royal Commission has been set up following the Victorian bush fires to look into the cause of the fires and the response to them. Early evidence has suggested that accurate and timely information was not available to the residents about the severity of the fires, and not enough information was available for them to make informed decisions about whether to remain on their properties or to evacuate. A final report is due in July 2010. The Royal Commission is also looking into building standards.

With the extreme weather becoming more commonplace, possibly due to climate change, the Insurance Council of Australia has presented two submissions to the Review of Australia's National Building Codes, calling for urgent action on the code so that building and insurance can better stand up to extreme weather risks associated with climate change. The ICA notes that the Building Code does not

include a minimum requirement for durability of the property except for where it will save lives. The ICA noted that current minimum BCA requirements for roofing and windows were inadequate to withstand the impacts of hail, and construction standards for high wind loads to BCA requirements are sufficient only to prevent collapse, but not severe damage to the building envelope. It also notes there are no minimum requirements for design in flood prone areas. Commentators note that the trend is already developing where some Insurers are limiting their exposures to the very high risk regions, such as Northern Queensland, and if the Insurance Industry cannot convince people to spend extra money on more durable buildings, the alternative is that the nation will grow more reliant on State assistance after extreme events in the absence of affordable insurance.

With the global spread of H1N1 Swine Flu, there are now more than 10,000 reported cases in Australia, and already stretched hospitals are bracing for more. Global brokers, such as AON and Marsh, continue to encourage clients to be ready to deal with an outbreak of Swine Flu, noting that many organisations have updated their pandemic plans with new measures such as restricting employee business travel, activated accountability systems for employees and household members, initiating three orders of succession and delegation, and reviewing work at home procedures. There are implications for Workers Compensation Insurers with respect to employees contracting the disease at work and there may also be WorkCover penalties against employers and their management if an employer continued to insist employees attend work knowing that they had the Swine Flu. Medical Indemnity Insurers are also considering implications of the rollout of the Swine Flue Vaccine.

Insurance Law Regulations & Local Institute Matters

Both Lumley Insurance and CGU Insurance have announced plans to quit Home Warranty Insurance, with now only QBE, Vero and Caledan remaining in the Home Warranty market. Home Warranty cover is a legal requirement for builders of residential homes.

A continuing problem in New Zealand, known as the “Leaky Building Syndrome”, continues to escalate, with the cost of repairing New Zealand’s leaky buildings blowing out to NZ\$11.5 billion from the previous estimate of NZ\$3.6 billion. Many New Zealand homes built in the 1990s have developed problems related to leaks due to faulty construction methods and materials.

A recent New Zealand High Court decision has confirmed that employers must expect a “significant uplift” in the level of fines for breaches of the Health & Safety in Employment Act 1992. While employers required to pay a fine cannot claim for the fine under an insurance policy, the High Court’s decision clarifies the fact that a fine will be reduced by 10-15% if reparation is also ordered – even if an employer has taken the prudent step of arranging insurance cover for any reparation payable to the injured party.

My apologies for not being able to attend the AGM. I hope it all goes well and that the convention is a great success.

A handwritten signature in black ink, appearing to read 'ML', with a long horizontal line extending to the right.

MALCOLM LOTHIAN
RVP – AUSTRALIA & NEW ZEALAND