

INTERNATIONAL INSTITUTE OF LOSS ADJUSTERS INC
AGM MEETING REPORT – AUSTRALIA & NEW ZEALAND REGION

**To: The President & Members of the IILA,
AGM, Singapore – November 2010**

It is my pleasure to present the Annual Report for the Australia & New Zealand Region for 2010.

MARKET & BUSINESS DEVELOPMENTS

Things have been fairly quiet in the region since our last report, with no significant mergers or acquisitions, or any significant changes in the market. In Australia, according to the latest “Performance of Services” survey by the Australian Industry Group and Commonwealth Bank, the Finance and Insurance Sector has further weakened during September, reading below 50 points, showing that the industry is contracting rather than growing. A report by Insurance News.com.au notes that the overall index fell 1.9 points during the month to 45.6, with the Finance and Insurance Subsector showed strong contraction activity dropping to 38.7 points. A wide variety of factors appear to be contributing to this weakness according to CEO, Heather Ridout, including tentative consumers and businesses influenced by political uncertainty, volatility in the global economy, the prospect of higher domestic interest rates and the ongoing withdrawal of fiscal stimulus.

One of the leading Australian Insurers, Suncorp, is set to increase its share of the commercial insurance market, according to the Divisional CEO, Anthony Day, when he reported to shareholders at the AGM that Suncorp had increased gross written premium by 4% last financial year to \$2.45 billion, a trend which should continue through to 2013.

In New Zealand, IAG NZ will increase premiums after receiving 7,000 claims from the Christchurch earthquake victims, including one claim worth NZ\$55 million. The Insurer has reportedly stated that most of the 7,000 claims are not covered by the Earthquake Commission (EQC) payouts. Acting CEO, Karl Armstrong, is reported by Insurance News saying that it is possible that up to a third of the buildings in the Christchurch CBD could be under-insured for reinstatement. Many pre-1935 buildings may not have been acceptable by the majority of Insurers for full replacement cover.

The global financial crisis has reportedly caused a slump in the NZ Finance and Insurance Sector, with total income slumping 7.5% or more than \$NZ 6 billion.

CURRENT NEWS

We have reported previously on the ongoing issues in relation to Builders Warranty Insurance, which is still raising concerns throughout the industry in Australia. Government controlled home warranty schemes are now operating in New South Wales and Victoria; a government controlled scheme began operating on a commercial basis in Victoria on 31 March 2010 and was introduced to New South Wales on 1 July. QBE Insurance and Calliden Group are the sole agents for the cover in New South Wales, although in Victoria Calliden has announced it will exit the market by March 2011. The South Australian Government has also announced it has reached an in-principle agreement with QBE and Calliden to help manage the transition of builders who are currently insured with Vero. In Western Australia the government will retain its current mandatory scheme for private home indemnity insurance for three years. Builders Collective of Australia President, Phil Dwyer, quoted in Insurance & Risk Professional, stated that 'this was an insurance that builders don't want and consumers don't want it either'. He notes that it is the most controversial insurance scheme in our history, and builders insurance are the most underperforming insurance in the nation. He noted that builders should not have to be putting up their assets and houses to go to work. Builders have reported that they are facing premiums up to three times higher than previously.

Members would be well aware of the disruption to global air travel in April, caused by the volcanic eruption in Iceland. The Aviation Industry reportedly expected to lose billions of dollars as a consequence of the disruption. In Australia, those who had travel insurance were generally covered for this type of event, as opposed to those travellers in Europe who had reported having claims rejected because the volcano was regarded as an 'Act of God'. It appears, however, that business interruption policies in Australia are unlikely to respond due to disruption to the air space, as BI policies usually are only triggered by physical loss or damage.

The Insurance Council of Australia (ICA) has recently established a national fraud project to heighten awareness and short circuit criminals. The ICA's Economic Crime Insurance Working Group consists of a representative from each major insurer, and the fraud project will assist members to actively share personal claim information and data.

CHANGES IN INSURANCE LAW AND/OR REGULATION

In Australia, and specifically the State of Victoria with a State election looming in November and increasing pressure from the Insurance Industry and other organisations, the State Government has recently announced that the Fire Services Levy on property owners and businesses is to be scrapped. The National Insurance Brokers Association (NIBA) will push for a levy that forms part of all home owners rates, as is done in Western Australia and South Australia. It is yet to be seen whether New South Wales and Tasmania will follow suit.

In New Zealand, recent proposed changes by the New Zealand Government to the Accident Compensation Commission (ACC) in privatising long term claims represents a significant change, with around 3,000 claims to be outsourced to the private sector.

Still in New Zealand, Allianz report premium rate increases in the order of 10-15% over the past 18 months, with generally industry claims trends having been favourable over the past 2 years due to the absence of weather related losses. This of course was prior to the Christchurch earthquake in September. QBE in New Zealand report that claims, particularly in the liability lines, are trending upwards due to a combination of the 'leaky/rotting homes' scenario and financially related claims in the aftermath of the global financial crisis.

DISASTERS IN REGIONS

Australia

We have previously reported on the significant severe weather events in Melbourne, Victoria and in Perth, Western Australia, and also in New South Wales and Queensland during early 2010. The current statistics for Perth, Western Australia, is that 120,500 claims valued at \$889 million have been lodged, making it the most costly natural disaster ever recorded in Western Australia. In Melbourne, Insurers have received 105,000 claims at a cost of \$890 million, placing this catastrophe in the top ten natural disasters to have impacted Australia, according to the Insurance Council of Australia.

In September floods hit north eastern and western Victoria, and on 30 July the small South Australian town of Penola was struck by a tornado, which damaged 60 buildings, including 40 houses. This followed a similar localised natural disaster in Lennox Head on the north coast of New South Wales which occurred on 3 June where a water spout swept in from the ocean, destroying 12 homes and damaging 30 others.

In more recent weeks there has been severe weather and flooding in Southern New South Wales, with the NSW Government declaring a natural disaster in six local government areas.

New Zealand

Of more significance for this region was the magnitude 7.1 earthquake which occurred in Christchurch on 4 September 2010, with continuing significant aftershocks as recently as 18th October measuring 5 on the Richter Scale. Since the initial earthquake there have been over 2,000 aftershocks. Fortunately at this stage no deaths have been recorded and only 2 people have been critically injured. The earthquake has been particularly severe on older brick buildings in the Christchurch CBD, however there has been extensive damage

throughout the suburbs and surrounding areas. Initial estimates report damage in excess of NZ\$4 billion, and claim numbers exceeding 100,000. A significant number of Loss Adjusters from Australia have been sent over to assist the local adjusters. Almost two-thirds of the city's 160,000 homes were damaged, and approximately 300 people were left homeless.

New Zealand has also suffered from severe weather events, with snow and floods during September producing one of the worst winters in New Zealand's history.

ITEMS OF INTEREST/OTHER

The Federal Government has agreed to spend \$12.5 million on disaster resilience initiatives in Queensland, South Australia and Western Australia. Funding will be spent on projects to reduce communities' vulnerability to natural hazards, building partnerships between sectors, encouraging original approach to mitigation initiatives and considering potential impacts due to climate change.

An interesting article in the August/September issue of Insurance & Risk Professional concerns Gene Screening, considering its implication to the Insurance Industry. One of the private health insurers, NIB, in March offered half price genetic tests to 5,000 customers to assess their pre-disposition to diabetes, heart disease and some forms of cancer. While the article states that the publicised deal was intended to provide customers with an early warning about possible health risks, the offer was met with public suspicion about subsequent hikes in premiums and media controversy over the ramifications for life insurance products and superannuation. Fortunately, Australia's legislated community rating system bars private health insurers from altering premiums based on risk assessments of age, family history or genomic risk. However, this is not the case for cover for life, disability, trauma, business and bank loans, which is underwritten according to present and past health and any genetic information, including family history and/or any genetic test result. Currently privacy laws restrict a health insurer from sharing such information with an allied life insurance business. Clearly this will be an issue that will continue to develop with the insurance industry and its clients.



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