

DANIEL PAZ, 1st Vice President
Marine Surveys in Marine Surveyors Group
Misiones 1568, CP 11000
Montevideo, Uruguay

TOM MOSS, Secretary
Tenco Services, Inc
P.O. Box 3647
Brentwood, Tennessee 37024 U.S.A.

TED WHEELER, Director-At-Large
National Adjusters Partnership
Unit 6, 30 Maddux Street
Alexandria, 2015, Australia

ANDREY BOGACHOV, President
LABB, LLC
41-A Bolshoy Afanasyevskiy pereulok
Moscow, 119019 Russia

TOM ERHARDT, 2nd Vice President
Erhardt Adjustment Company, Inc
1111 Route 110, Suite 320
Farmingdale, New York 11735 U.S.A.

MICHAEL NARDULLI, Treasurer
Independent Adjustment Company
22 West Main Street
Patchogue, New York 11772 U.S.A.

CHARLES J. REILLY, Immediate Past President
Edward R. Reilly & Company, Inc.
18 John Street
New York, New York 10038 U.S.A.



International Institute of Loss Adjusters Inc.

REGIONAL VICE PRESIDENTS

AFRICA
KAMAL ARUNBHAI PATEL
Trans-Europa Assessors (K) Limited
P.O. Box 78843-00507
Nairobi, Kenya

AUSTRALIA & NEW ZEALAND
Brent Demnar
ACG International
P.O. Box 1257
Kenmore, Queensland, 4069, Australia

CANADA
MICHAEL J. ORAZI
Canadian Shield Adjusters
243 Regent Street
Sudbury, Ontario, Canada P3C 4C6

EURASIA
JOSÉ VICENTE ARRUFAT
JV Arrufat Architecture
Pz. Regne, n. 9
Alzira, Valencia, 46600, Spain

LATIN AMERICA
ALFREDO LANDIVAR V.
International Inspection Services (Chile) S.A.
Asturias 271, 4 to. Piso, Las Condes
Santiago, Chile

MIDDLE EAST & INDIA
SAJIMIL MEHTA
Mehta & Padarnsey Pvt. Ltd.
Fort Chambers, Tamarind
Street, Fort Mumbai 400001,
India

SOUTH & EAST ASIA
Tony (Tsuneyuki) Nakatani
Insurance Claims Investigation Service Co., Ltd.
4-4-16 Arigasaki
Matsumoto Nagano 390-0861
Japan

UNITED STATES OF AMERICA
ARTHUR H. STROMER
SoCal Adjusters, LLC
P.O. Box 2441
Chino Hills, California 91709 U.S.A.

For the information of the President and Members, I submit my 2019 AGM Report for Australia & New Zealand.

Market & Business Developments

While there have not been any significant mergers or acquisitions among regional insurers, Australia's largest general insurance and underwriting agency network, the Steadfast Group, has been successful in their offer to acquire Insurance Brokers Network Australia (IBNA) from AUB's Austbrokers, with whom they had been in a joint venture since 2007.

With votes recorded from over 94% of eligible IBNA voters in favor of the deal, Steadfast will now issue up to 850 million shares to facilitate the equity purchase. IBNA, comprising some 80 broking businesses, placed AUD\$1.25b GWP in 2018 and will add to the record GWP placed by Steadfast last financial year of more than AUD\$7.2b.

Reinsurance rates in the Australian and New Zealand markets are reportedly firming rather than hardening, due to the high level of international catastrophe losses over the past two years, despite the normalised value of regional cat losses remaining below average.

Swiss Re expects further rate increases for loss-affected and underperforming business, but broadly stable rates elsewhere as capital remains abundant. "The recent experience of hardening rates in reinsurance mainly reflects the response to higher loss occurrences and adverse trends in natural catastrophe markets and other affected segments," says Edouard Schmid, Swiss Re Institute Chairman and Group Chief Underwriting Officer.

The reinsurer warns further increases are needed to ensure a long-term sustainable market, with the current hurricane season highlighting the importance of having prices that adequately reflect risk.

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“The abundance of capital in the insurance market has impacted the entire reinsurance value chain, increased cost sensitivity, and is requiring reinsurers to find new ways of creating value for primary insurers,” Swiss Re says.

Lloyd’s has announced that it’s in the process of conducting a strategic review of all agency business in Australia and New Zealand and that poor performing business will be cut. This follows the continuing deterioration in the profitability of some specialist agencies, calling into question the sustainability of the business. Globally, Lloyd’s has seen a 6.5% reduction in business volume as underwriters adopt a more disciplined approach to renewals and adjust their books to improve performance.

Global insurer Allianz has announced that it will stop writing property and liability business in the New Zealand market, following its strategic review of the market and its focus on other more viable options in the region. The withdrawal of Allianz, whose GWP for the subject business in 2018 amounted to NZ\$40m, is expected to be fully absorbed by other local market insurers.

Changes in Insurance Law and/or Regulation

The Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, led by Commissioner Kenneth Hayne, has resulted in 15 recommendations specific to the insurance industry and 76 recommendations in total across the banking, superannuation and financial services industries.

Included in the recommendations for insurers are the introduction of a ban on hawking (unsolicited meetings or calls to sell insurance), the introduction of a deferred sales model for add-on insurance and reforms to commission arrangements, all of which are expected to impact both the insurance and broker markets.

Commissioner Hayne has also supported the implementation of the unfair contract terms regime to contracts of insurance as well as an amendment to group life policies to ensure arrangements are in the best interests of members.

The Commission has recommended that the current duty of disclosure in the *Insurance Contracts Act 1984* be replaced for consumers by a duty not to make a misrepresentation. Insurers will have to ask questions they wish to know the answer to.

Culture, governance and remuneration in financial services firms were key components of the Commission findings. Organisational structures had allowed, and incentivised, the pursuit of profit at the expense of proper conduct. Hayne’s recommendations will require sweeping reviews to be conducted by financial services entities, including insurers, to modify their risk management frameworks and assess and continually improve their culture.

Claims handling will require regulation with the result that insurers and third party claims administrators will become subject to the general obligation to provide services ‘efficiently, honestly and fairly’. Provisions of industry codes of good practice will become enforceable by the Australian Securities and Investments Commission (ASIC), effectively turning self-regulation into law.

The Insurance Council of New Zealand (ICNZ) has launched a new Insurance Fraud Bureau (IFB) to crack down on fraudulent activity that it estimates costs the industry as much as NZ\$614 million a year (almost 10% of 2018 GWP).

And while it won't have the legal power to prosecute offenders, it will give insurance providers a new channel to share data and cooperate. A white paper from ICNZ, which was released as part of the IFB announcement, outlines the rationale behind establishing the new agency. ICNZ is the insurance industry body whose members consist of insurance companies.

"Insurance fraud continues to plague the general insurance sector despite the number of initiatives to curb it. Greater effort needs to be made to educate the public around insurance fraud issues and reduce instances of insurance fraud.

In an important test case (*Dodds v Southern Response Earthquake Services Ltd*), the New Zealand High Court ruled in August 2019 that government-owned insurer Southern Response engaged in misleading & deceptive conduct, and contractual misrepresentation. The High Court ruled that, by presenting an abridged report as the complete and only cost estimate document, and by representing the costs in the abridged report as the full cost of rebuilding a house, Southern Response had engaged in contractual misrepresentation, and misleading & deceptive conduct under the Fair Trading Act.

The key factor wasn't that their client (Dodd's) didn't receive the extra value, rather, that they never got a chance to consider their options.

The High Court noted that there is a duty on Southern Response, as the insurer, to act with utmost good faith when performing the insurance contract, not just during the formation of the insurance contract. The High Court indicated that Southern Response had not complied with that duty (though that wasn't relevant to the decision).

While there has been a soft PI insurance pricing cycle for architects and other construction industry professionals over the past few years, the market has hardened very quickly and over the last 12 months insurers are looking for a minimum of 10% to 20% rate increases for architects. Some professions, such as fire engineers, structural engineers and building surveyors, are facing increases of more than 100%. Coverage is decreasing by way of new exclusions, increasing excesses and reducing limits.

This hardening market is not just due to a withdrawal of capacity by Lloyds (referred to earlier) it actually coincided with the emergence of a crisis of confidence in the construction industry, triggered by defective cladding issues and fuelled by a media blitz over new "defective", "shoddy" or "sub-standard" buildings.

The latest cost estimate of fixing defective cladding is about \$6 billion with Victoria the first state to set up a new agency dedicated to the rectification of non-compliant cladding.

In a recent submission to the NSW Public Accountability Committee, the Insurance Council of Australia stated: "A number of high profile compliance failures in NSW, coinciding with use of non-conforming and potentially dangerous external cladding on modern and some refurbished buildings, has led to a crisis in confidence for insurers who provide professional indemnity coverage for building professionals and increasingly for insurers who insure the physical buildings once construction has been completed."

Most PI insurers have now introduced exclusions for claims arising from the use of non-compliant cladding, and due to the claims-made nature of PI policies, these exclusions could leave professionals uninsured for past projects.

Natural Disasters in the Region

The ongoing drought which affects much of eastern Australia has fueled concerns over the bushfire risk for this coming summer, after a spate of fires in the first week of September destroyed bushland and pasture in Queensland and central/west New South Wales. In fact, some of the larger fires, particularly in northern NSW, are still burning, but are currently in isolated areas and pose no immediate threat to life or property.

Over 350,000ha was burnt out when the fires (some deliberately lit) took hold in extremely dry and hot conditions. A record number of fire brigade areas were classified as having reached catastrophic risk levels, due to the low humidity, very high temperatures and availability of dried biomass (fuel loads). Although property losses have to this point been minimal, the early start to the fire season was a timely reminder that worse is to come.

Other than the losses covered in my Mid Term Report for both Australia and New Zealand, and the forgoing fires in September, the region has not experienced any other loss events of any significance.

Concluding Remarks

Finally, I take this opportunity to wish all attendees a memorable Convention.



Brent Demnar
Regional Vice President
Australia & New Zealand