

## **TSI** Brokers and Consultants

*Welcome*

Welcome to TSI's latest newsletter; and thank you to all clients across TSI, IBS, EIS, Shore Insurance and Rural Contractors for your continued support.

There are some significant issues happening across the insurance sector at present including Natural Disaster, increasing Fire Service Levy charges, Insurers increasing premiums and Cyber Crime.

Our newsletter provides an update on all of these issues and we are happy to discuss these further at any time.



Since our last newsletter there have been some further changes at TSI.

- Amanda Boys has joined our team in the Tauranga office in a Broker Support role.
- After a long battle with cancer, Brian Wilson sadly passed away earlier this year.



TSI are members of the Steadfast Group, the largest insurance brokers network in Australia and New Zealand. With over 343 Brokerages spread across more than 1,100 offices, the Steadfast Group generated over \$6 billion in insurance sales FY16. This scales gives Steadfast the ability to negotiate and work with major insurers on behalf of Steadfast brokers and results in us being able to provide you with access to multiple insurance companies, a broad range of exclusive products and services combined with our local, expert advice.

As a client of a Steadfast Network Insurance Broker, you get the best of both worlds - local and personalised service with the insurance expertise and support of a large organisation.

**Strength when you need it.**

---

# Natural Disaster Incidence



Recent earthquake's, flooding, and cyclones are all well documented and our sympathy goes out to all clients who have been affected.

The Fire & General Insurance industry is struggling to handle the volume of claims at the moment and we at TSI are certainly impacted as well.

We are currently assisting many clients with claims, and as your Brokers we are working to;

- Get claims lodged properly and quickly.
- Monitor insurers to see that loss adjustors are appointed promptly, and that the Loss Adjustors who are appointed are in fact suitably qualified for that particular claim type.
- Assist clients, and insurers with interpretation on policy scope of cover.
- Become involved when settlement delay occurs.
- Ensure that the appropriate insurance cover is in place following the loss and reinstatement.

Because of the scale of recent natural disaster claims, when added to business as usual claims, issues and problems are occurring as insurance company's loss adjustors and repairers/tradesmen struggle to cope.

As your brokers that is where we work to add value.

---



# Insurance Premiums are Rising

Even before recent natural disasters, insurers were struggling with profitability after several years of intense competition to gain market share and also resist new players coming into the NZ market.

In the second half of 2016 insurers were attempting to impose premium increases, but progress was slow. However, following the recent significant natural disaster claims, renewal premiums are being increased and insurers are not in the mood to negotiate.

As your brokers however it is our role to push back on “across the board” increases and ensure that renewal premiums reflect not only the exposure, but also length of relationship and actual claims experience.

As we work through your renewal process this will be discussed with you, and we will continue to obtain options from other insurers, to ensure that your premiums, policy coverage, and deductibles remain competitive relative to the market.

.....

## Loss of Profits and Additional Costs of Working



Recent natural disaster claims have again highlighted the importance of Loss of Profits/Additional Cost of Working insurance cover as often being the difference in being able to continue trading or not.

Over recent months we have seen several examples where a business had elected not to insure loss of profits/additional costs of working with an unhappy outcome. Often it can be related to “cost vs price.”

Basically, by focusing on a low premium cost, and later when a claim occurs paying a high price when not insured.

## **1.What is Loss of Profits Insurance?**

A claim under a LOP policy is triggered when a valid claim is made under a Material Damage policy which insures business assets such as buildings, plant, stock etc. Similar to the Loss of Rents insurance, where lost or reduced rental income following a fire/flood/earthquake is covered.

Following any disruptive event the effects on trading profit can be identified in terms of either;

- Reduced income
- Increased costs.

This is a simple concept which forms the basis of LOP insurance, and as mentioned, having adequate LOP insurance in place can mean the difference for a business of actually continuing in business or not.

## **2.Structure of Loss of Profits Insurance**

### **A.Reduction in income**

When production/sales are lost revenue naturally reduces, but so too do a number operating expenses such as;

- Outward freight
- Raw material usage
- Selling commissions

So, the LOP policy indemnifies the business for lost revenue, but also deducts where appropriate savings in these directly variable expenses.

### **B.Additional expenditure**

Following damage, the business is usually faced with additional expenditure across two broad categories;

1. To reinstate the damage - This part is not related to the LOP cover, that will be taken care of under the insurance policy which insures the business assets.
2. To minimise interruption - Can be summarised by "spending a \$1.00 or \$1.50 to generate a \$1.00" as follows.

- Maintaining production and sales in a temporary and often more expensive manner, while damaged premises, plant etc. are being reinstated
- Speeding up the reinstatement of buildings, plant etc. in order to reduce the trading period where trading losses are occurring. Examples here could include paying above market price to procure key plant, paying higher wages and overtime to speed up the rebuild.

### **C.Claim preparation costs**

The calculation of the claim can be extremely complex and requires the input of a qualified accountant.

A separate sum insured item is included in the LOP policy to cover these costs.

### **D.The Indemnity Period**

This is the length of time which the LOP insurance will pay for the reduction of revenue/additional costs, and is a key factor in establishing a LOP policy which is actually effective.

The indemnity periods are often inadequate due to amongst other things;

- The link between premium cost and the length of the indemnity period.
- Insufficient thought being given to the complexities of re-establishing a devastated business.

Some, but not all, considerations when establishing the indemnity period include;

- Reaction time, getting over the shock, and getting momentum going.
- Feasibility, will you rebuild, where, what do you need?
- Debris removal
- Plans/specifications
- Local body permits
- Commencing the rebuild, availability of trades people, plant etc.
- Shipping, installation.
- Regaining customers and market share. Your competitors will have been active while you have been out of action. While you may be back in operation, revenue reduction, and some additional costs may be ongoing for a while.

Although your insurance policies are annual, a LOP indemnity period is not linked to that. The indemnity period starts from the time loss occurs, which could be on day 364<sup>th</sup> of your annual policy period, and your indemnity period starts from that day and will run for 12,18,24 months based on whatever has been selected.



## **Changes to the Fire Service Levy**

Government has confirmed that the Fire Service Levy will increase by 40%. This increase is a result of a decision to amalgamate urban and rural fire services and

shift virtually all of the resulting costs onto insurance.

Cabinet approved the new levy rates in March this year, and agreed that these new levy rates would be effective from 1<sup>st</sup> July 2017.

IBANZ (Insurance Brokers Association of New Zealand) have been lobbying for some time regarding the need to fund fire service levies from a much broader source than insurance premiums, and will continue to do so.

.....

# Cyber Crime – Small Business



Cyber-attacks are costing small businesses in New Zealand an average of \$19,000 per attack, research has revealed.

The New Zealand figure was more than twice as much as that seen in Australia (\$6,500), according to Norton’s recent SMB Cyber Security Survey.

The research also found that the biggest impact of cyber-attacks on small businesses was downtime (45%), followed by inconvenience (41%) and the expense of re-doing lost work (29%).

While cyber-attacks are costing New Zealand businesses more than ever, uptake in cyber insurance remains perilously low, with only 6% of small business owners currently covered and a further 9% looking at cover over the next 12 months.

A recent survey revealed that 31% of businesses when asked “how long can you survive without your business data?” – 31% said they could not survive beyond one week.

As a broker, we advise clients to remember the basics of cyber security, as many ignore easy ways to stay safe. Using complex passwords, different passwords for different accounts and ensuring that cyber security software is installed on all PCs and mobile devices is a good way to start. Backing up data is paramount.

With a lot of these threats, you can continue to invest in technology, but you can never guarantee to have 100% protection.

Businesses that do the basics – have security in place, perform back-ups etc. – are well placed. However, its cyber insurance that is really “the catch-all beyond the mitigated risk.

Although the uptake of cyber insurance has been slow, the insurance industry has seen an increasing number of actual claims and claims costs. Moving forward we see the premium cost of cyber insurance cover increasing, so if you are considering taking cyber cover, sooner rather than later may be the most cost effective option.



- Garry Bray - Director and Senior Broker
- Ruth Steele - Business Manager & Senior Broker
- Liz Champion - Senior Broker - Wairarapa
- Shelley MacDougall - Claims Manager/Small Business Broker
- Les Jones - Broker/Landlords Insurance
- Amy Rae - Administration/Reception/Junior Broker
- Helen Bray – B.Com. CA. CMA. Director and Accountant
- Geoff Craven - Senior Broker - Tauranga
- Allan Hill - Broker - Tauranga
- Amanda Boys - Broker Support - Tauranga
- Erle Tucker - Senior Broker - Gisborne



From the team at TSI – Thank you for your continued support, and watch for our next newsletter.

Website    Email



Copyright © 2017 TSI Brokers & Consultants, All rights reserved.