

# THE NET EDITION



THE OFFICIAL NEWSLETTER OF BROKERNET N.Z. LIMITED

ISSUE  
TWO



Welcome to the 2nd issue of The Net Edition. Many of our clients have commented on the first and we hope you will find the second just as interesting.

One thing you can be sure of with the New Zealand Insurance Market is that it never “sits still” for long. The last quarter has seen the sale of two of our largest Insurance Companies – Lumley General Insurance and New Zealand Insurance. Lumley General Insurance have recently announced the prospective purchase by Wesfarmers Limited – please refer inside this issue for more details, and NZI has been purchased by the giant, Insurance Australia Group, who are the parent company of State Insurance Ltd and Circle. The continued erosion of competing insurers is of concern, particularly in the current market, and is discussed in greater detail in this issue.

This issue’s lead article is about “White Collar” Crime and some basic risk management advice. A recent article in the Dominion Post headlined with a story on a \$1.9 million dollar employee fraud. You may think “this will never happen to me” but think again. No industry appears to be safe from this crime and it is very important that as Business Owners and Operators you take steps to protect or at least minimise any impact on your “bottom line” as, without risk management and insurance protection, that is where the loss will lie.

Burglary and Theft of motor vehicles continues to plague the insurance industry and we have included a follow-up article with some statistics, which are not “pretty” to read.

We hope you enjoy our second issue and find the articles interesting. If you would prefer future issues to be emailed to you please advise your Insurance Broker. This newsletter may also be viewed on our website [www.brokernet.co.nz](http://www.brokernet.co.nz).

Debbie Street  
Chief Executive

## in this issue

- \* “White Collar” crime - yes it could happen to you!
- \* Those Car thieves are still at it!
- \* Lap Tops - risk management
- \* Lumley General Insurance announce prospective purchaser
- \* Update on the Insurance Market
- \* A bit of fun - Cigars up in smoke?

## “White Collar” Crime – Are you prepared?

How often do you open the paper and find yet another story about an employee misappropriating goods or money from their employer. This is not limited to any particular industry and affects businesses, whether large or small.

Occupational fraud and abuse occurs on a regular basis. Indepth Forensic Ltd, Hamilton, provided us with some very disturbing statistics:

- The average organisation loses about 6 percent of its total annual revenue to fraud and abuse committed by its own employees
- The perpetrator who typically causes the greatest loss is a well educated male
- Median losses caused by men were over four times those caused by women
- Losses caused by managers were four times those caused by employees

They also advised that warning signs were often ignored in error until it was too late. Common violations included asset misappropriation, corruption, false statements, false overtime, petty theft and pilferage, use of company property for personal benefit, payroll and sick time abuses, unauthorised and inappropriate internet and email access.

Sounding familiar? Indepth Forensic Ltd advised that it is imperative to have sound policies in place and that early prevention and detection is essential to prevent losses from escalating.

These simple checks may help identify occupation fraud and abuse. They are in themselves merely tools which both internal and external auditors should also apply during their normal investigative process. No accounting system is ever foolproof and one must stay constantly on ones guard.

Continued on Page 2





*Creditors have better memories  
than debtors*

*Howell 1659*



## “White Collar” Crime – Are you prepared?

*continued*

- Remove the temptation
- Remove the opportunity
- Do not place unbridled trust in employees
- Have a regular systems audit
- Take heed of red flags or warnings
- Attempt to provide the tools to staff that will enable the collection of complaints and information alerting you to possible occupational fraud and abuse
- Set the tone at the top
- Have a written policy on occupational fraud and abuse
- Create a positive work environment
- Check future employees references – before you employ them!

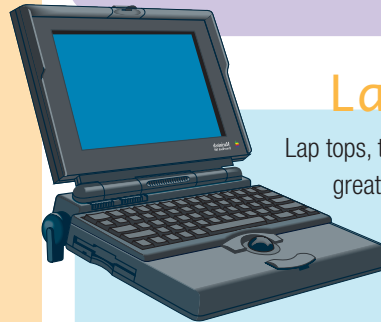
Fidelity Guarantee Insurance is available to protect businesses from some of the losses and we suggest that if you don't currently have this cover that you talk to your Insurance Broker – before you get caught.

Indepth Forensic Limited have over forty years combined experience in this field, with current memberships of worldwide organisations which promote and foster the prevention and detection of fraud, including the Certified Fraud Examiners of the United States of America and the Australian Institute of Professional Investigators

Indepth Forensic Limited may be contacted on (07) 957 8674.

## You know you are living in the Y2003 when:

- Your reason for not staying in touch with your family is because they do not have email
- Your grandmother asks you to send her a JPEG of your new born so she can create a screensaver
- Every commercial on TV has a web site address at the bottom of the screen
- You purchase a computer and 3 months later it is out of date and sells for half the price you paid
- Leaving the house without your cell phone, which you didn't have for the first 20, 30 or 60 years of your life, is now a cause for panic and you turn around to get it!
- Using real money, instead of credit or eftpos, to make a purchase is a hassle and takes planning
- You consider second-day postal delivery painfully slow and you get annoyed when people post letters or reports to you
- You are reading this and nodding and laughing!



## Laptop Computers

Lap tops, tablets, video data projectors and the like are great because they are so portable but how safe is the information contained in them. Did you know that approximately 1 in 5 laptops are lost or stolen each year. When did you last back up or download the information contained on your laptop – have you ever done this?. Do you have security codes to access your information or do you have some form of locking device to keep unwanted third parties out? Do you have back up software?

Thieves often steal these items because of their portability and size. There is insurance protection available for these items but please remember, for businesses, that the deductibles are high, because of the frequency of loss, and range from \$1,000 to \$2,500 and higher. Act now with some simple risk management – before it is too late.

## Lumley Purchase Announcement



We recently announced the prospective purchase by Wesfarmers Limited of the Lumley companies in New Zealand and Australia. The announcement has been well received by our management and staff in New Zealand and the feedback from brokers has been overwhelmingly positive.

Wesfarmers is one of Australasia's most successful public companies. It employs over 30,000 people and has revenues of close to NZ\$10 billion. Recently announced results for the year ending 30 June 2003 highlighted record profits totalling A\$538.2 million. Wesfarmers' companies operating in New Zealand include Bunnings, Benchmark, NZ Safety, Protector Alsafe and Paykel Limited.

Wesfarmers intends to operate the Lumley group (apart from the Life company) in parallel with its existing general insurance business. Combined premium income from Wesfarmers and Lumley is expected to exceed NZ\$1 billion making the insurance division very substantial indeed.

The work we have been doing in diversifying our specialist product positioning, improving our systems and enhancements in our claims structure means we are ideally placed for ongoing growth and prosperity. We will take the best of our legacy and our new capabilities and build an exciting company for the future. An important part of this future is with the Brokernet group and we look forward to continuing and extending our relationship.

Final announcements confirming the sale completion are expected shortly.

Rieny Marck, *Managing Director*

## First, Get their Attention round like a shot



Going to bed the other night, I noticed people in my shed stealing things.

I phoned the police but was told no one was in the area to help. They said they would send someone over as soon as possible.

I hung up. A minute later I rang again. 'Hello' I said, 'I called you a minute ago because there were people in my shed. You don't have to hurry now, because I've shot them.'

Within minutes there were half a dozen police cars in the area, plus helicopters and an armed response unit. They caught the burglars red-handed.

One of the officers said: 'I thought you said you'd shot them.'

To which I replied: 'I though you said there was no one available.'

*Tony Gladstone - Source NZ herald 12 June 2003*

*This letter to the editor was sent from England. Has a familiar ring about it though, doesn't it? Especially if you've had a burglary at your place lately.*

## Car Thieves Burgle Homes for Fancy Keys

In our last issue we highlighted certain vehicles that some Insurers will no longer insure.

If you thought that installing an immobiliser or alarm would keep your vehicle safe, think again. In a recent article in the NZ Herald, The Insurance Council chief executive, Mr Chris Ryan, said insurance companies had noticed an increase in home burglaries by thieves wanting keys for cars that immobilised themselves without the proper key.

Car burglaries made up about half of the \$240 million worth of property stolen each year, Mr Ryan said. Figures show that a car is stolen every 13 minutes and a theft from a car occurs every 10 minutes.

about Car Thefts/Burglaries:

38,824 cars stolen in 2002  
53,662 thefts from cars  
22 per cent of car thefts solved  
2.8 million cars on NZ Roads

A simple common sense approach may help protect your vehicle from thieves:

- Don't leave your keys in the car
- Make sure your vehicle is locked, and if applicable alarmed, at all times
- Try to always remove valuables from your vehicle, if this is not possible ensure they are kept out of sight

The latest problem facing insurers is the theft of vehicles from Petrol Stations. Thieves are stealing vehicles while the owners are paying for their petrol. This also highlights the need to always remove your keys from the ignition.

*Source NZ Herald 20th June 2003*



## Insurance Market Update

The last three months has seen improved Reported Results by some insurers. Insurance Australia Group (IAG), who purchased NZI Insurance recently, have reported a 30 June year-end profit of A\$153 million (NZ\$172 million) compared with last years net loss of A\$25 million. QBE Insurance have reported a half year result profit of A\$241 million.

To this you can add Lloyds turnaround which saw a profit in 2002 for the first time in the last three years and it is also believed that Royal Sun Alliance in New Zealand/Australia (now re-branded as Vero Insurance New Zealand Ltd) are to report a good result.

The turnaround has been assisted by the premium increases that have occurred over the last two years. There has been local market consolidation in New Zealand and Australia after the collapse in Australia of HIH Insurance in 2001, then the September 11 attack which affected the international market and reinsurance costs. These factors have seen the hardening of terms and the new underwriting criteria has by the latest results turned the fortunes of some insurers around.

This return to an annual profit will provide investors with the confidence to invest in Insurance Companies and already the share price has increased for certain insurers who are now performing with positive results. An increase in capital value allows the insurers to take on more risk and that in the end will see some competition return which will be good for consumers.

Unfortunately this will not simply occur overnight as a major factor in the insurance retail costing is their internal reinsurance costings. In a recent Lloyds "The Market" publication (you may like to visit them on [www.lloyds.com](http://www.lloyds.com)) the financial results of the major reinsurers were recorded and it did not make good reading. In a comparison showing Lloyds combined ratios as against the Industry, it recorded only Lloyds at 98.6 % and XL Capital at 97 %, making any positive return. Other major reinsurers recorded large combined loss ratios with:

Munich Re	122.4 %
US Reinsurers	121.3 %
European Reinsurers	105.1 %
Swiss Re	104 %

While these major reinsurance players continue to lose money, the cost of reinsurance will remain on an upward trend. The affect of this is that retail pricing will not reduce for some time yet.

There is the belief in the market that the next 12-months may see further rate increases of between 10 % to 15 %, but after that the market will start to level out. We certainly hope so, however we are in the hands of the international markets. One aspect that is clear is that we are finding it difficult to place medium to large risks. Insurers are being selective, difficult to conclude terms with and without exception, are writing down the amount of risk that they can hold on any one risk. It is common now to have two to five insurers involved, sharing lines on one risk, where previously one insurer held the cover themselves. Local insurers are certainly applying themselves to the huge problems that exist in the international capacity markets.

We, as your Insurance broker, will continue to work for you in an effort to conclude the most economic and competitive solution to your risk exposure.

*Murray Calder, Chairman, Brokernet NZ Ltd*

# A Bit of Fun! – It Pays Not To Play With Fire

A Charlotte N.C. lawyer purchased a box of very rare and expensive cigars and then insured them against fire, among other things. Within a month, having smoked his entire stockpile of these great cigars and (without having even made his first premium payment on the policy), the lawyer filed a claim against the insurance company. In his claim, the lawyer stated the cigars were lost “in a series of small fires.” The insurance company refused to pay, citing the obvious reason: that the man had consumed the cigars in the normal fashion. The lawyer sued – and won!



In delivering the ruling, the judge agreed with the insurance company that the claim was frivolous. The judge stated nevertheless, that the lawyer had held a policy from the company which had warranted that the cigars were insurable, and also had guaranteed that it would insure them against fire (without defining what is considered to be “unacceptable fire”) and was therefore obligated to pay the claim.

Rather than endure a lengthy and costly appeal process, the insurance company accepted the ruling, and paid \$15,000 to the lawyer.

NOW FOR THE BEST PART –

After the lawyer cashed the cheque, the insurance company had him arrested on 24 counts of ARSON! With his own insurance claim, and testimony from the previous case being used against him, the lawyer was convicted of intentionally burning his insured property. He was sentenced to 24 months in jail and a \$24,000 fine.

This is purported to be a true story and won first place in a Criminal Lawyers Award Contest.

## Quote for today

“An optimist thinks that this is the best possible world.

A pessimist fears that this is true!”

### Changes in particulars

Please remember to let us know of any changes in:

- \* Physical address
- \* E-mail address
- \* Phone and/or fax numbers
- \* Shareholding
- \* Purchase or change of Assets or anything else that may be relevant and don't forget to advise your Insurance Broker of any claims or circumstances that might give rise to a claim.

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