



The mysterious system of pricing insurance premiums by the Insurance Market is of vital interest to all buyers, however often appears to lack any logic. One of the first questions posed by our clients at renewal time often relates to the cost of premiums going forward. It is usually difficult for brokers to justify why premiums have risen when there have been no claims, or in some cases why the reverse applies. In this article we will try to explain the various factors which drive insurance premiums, with the intention of providing an ongoing periodic review on the current state of the market.

Insurance is a commodity and is not exempt from the usual market forces of supply and demand. In a balanced state of equilibrium most Insurers would charge a similar premium for a like for like product based on a recommended "book rate". Pricing of this rate in its simplest form is generally based on the price required to cover overheads and produce a reasonable profit. The largest overhead is of course the potential claims component. The theoretical price of this unknown factor is very much driven by historical statistics and then adjusted for variables specific to individual risks. None of this is rocket science.

Demand is relatively constant. (ie) Most insurance purchasers have an ongoing need for the product although there is naturally some fluctuation from price variations.

Supply is the greatest culprit in the variable nature of insurance pricing, and this is driven predominately by the amount of investment capital available to the wider Insurance Market to finance risk accumulation. Insurers operate within reasonably strict solvency ratios, and the ability to accept risk is generally regulated by the amount of available investment capital underpinning the solvency ratio. There is therefore a finite supply of insurance capacity available.

Most buyers of Insurance see only the name of their "Retail Insurer" on the policy document. Whilst the contract of insurance is strictly between this Insurer, and The Insured, virtually all Retail Insurers have a strong reliance on Reinsurers with whom they have a separate contract. Reinsurers provide the major catastrophe protection to Retail Insurers, and the cost of Reinsurance programmes form a significant part of retail premiums flowing through to the end customer. Most Reinsurers are international financial institutions who attract capital from a wide range of professional investors. As in all markets, investors are attracted to profitable investments, but generally vacate quickly where the opposite occurs. If Reinsurers suffer large losses from catastrophes such as Tsunami, Hurricane, or events such as WTC 9/11, the available investment capital often dries up, and supply restricts. The natural consequence is an increase in reinsurance premiums which flows through to retail premiums. The financing of risk is therefore an international function which inevitably spreads its tentacles into small local retail insurance markets such as New Zealand. Very few Retail Insurers in New Zealand could offer risk protection without a strong Reinsurer backing them. Any major catastrophe with aggregated losses such as an earthquake or weather related event would require significant reinsurance backing.

Following the WTC bombing on 9/11 which resulted in the largest ever aggregate insurance loss, the market experienced significant rate increases driven almost entirely by Reinsurers. The pool of reinsurance reserves had been largely depleted prior to this loss and Reinsurers passed massive increases to Retail Insurers when their respective reinsurance treaties fell due for renegotiation. In the subsequent 4 or 5 years, Reinsurers have rebuilt reserves to the extent that similar costs from Hurricane Katrina last year have been absorbed without so much as

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NEW PRODUCT WEDDING INSURANCE



Mooney & Associates, has launched New Zealand's first Wedding Insurance product.

The policy is designed to reimburse any additional expenses incurred due to the cancellation, disruption or postponement of the Wedding from all major unforeseen circumstances.

Wedding Insurance is available to be purchased online at www.wedsure.co.nz

Thought for the day..

Success in life is based on hard slogging. There will be periods when discouragement is great and upsetting, and the antidote for this is calmness and fortitude and a modest yet firm belief in your competence. Be sure that your priorities are in order so that you can proceed in a logical manner, and be ever mindful that nothing will take the place of persistence.



UNDER-INSURANCE

Under-insurance. We can all associate this problem with the destruction of a House and its contents. There has been widespread publicity about the effects on people's livelihoods from recent natural disasters in New Zealand where a number of victims had no insurance at all and others had less than adequate levels of cover. The same issue faces every business.

At least one case in New Zealand we are aware of involved the destruction of a factory from a fire where the insurance was \$250,000 short of the replacement cost. This has serious implications for the recovery of that business. Underinsurance can prevent a business from reaching its goals, and destroy the hopes and aspirations of its stakeholders. The consequences are felt throughout the local community – people's livelihoods are directly affected, as is the contribution to their economies and wellbeing of society.

In recent times there has been a sharp increase in the costs of replacing buildings and many items of plant and equipment. International demand for building materials, a shortage of tradesmen and an expanding economy have all contributed to this. Businesses that have not monitored the adequacy of their insurance on property to cater for a worst case scenario are at risk from the consequences of being underinsured.

2005 was the most expensive year for global insurers in terms of natural disasters - 650 events, US\$90 billion in claims and 100,000 fatalities.

A comparison between the cost of insurance on any amount of a potential shortfall in a claim settlement, and the cost of funding the same amount through some other finance mechanism demonstrates

the economic certainty of maintaining adequate levels of cover on property.

In addition, underinsurance can also impact on the 3 other aspects of risk: for businesses:

Personnel – Inadequate provision for the risk of serious injury or death of a key person leading to significant costs of recruiting a replacement, particularly where there is a wider demand for the skills required. In 2005 AMP alone received 1,646 life claims, paying out \$54 million.

Revenue – Inadequate revenue sum insured or indemnity period. Too many businesses fail after serious damage from a lack of attention to this area of risk. It is sometimes easy to be overly optimistic as to the time needed after (say) a serious fire for the process of planning what to do, the consent process and rebuilding times, not to mention the recovery of revenue streams due to loss of customers.

Liability - An increasingly litigious environment for many businesses has meant their owners are exposed to a wider range of scrutiny and personal liability. In some cases the mere fact that something happened is cause for a penalty, irrespective of responsibility. Also, inattention to contractual obligations regarding the financial consequences of something going wrong; or ignoring those provisions requiring minimum levels of cover for liability risks. Seek good advice on these issues.

Whereas the costs associated with the destruction of property can be estimated, liability risks are not so easy to quantify and the value of claims and defence costs can be extraordinary.

If a picture's worth a thousand words, that's valuable insurance.

Do you have a detailed record of your valuable contents?

We have our insurance in place for one purpose. To replace our belongings after theft, loss or damage. But when it comes to making a claim, can you meet your insurance company's requirements?

Insurance Company's are now requesting proof of ownership and value before settling a claim.

It is therefore essential to have a comprehensive record of your household and personal property stored securely away from your home.

Photosecure is the Answer.

For the past 5 years Photosecure has helped clients throughout New Zealand receive a prompt, accurate, stress free claims settlement.

Endorsed by all Leading Insurance Company's

Photosecure and their team of fully qualified Insurance Photographers will:

- Professionally photograph your valuable contents within your home or business
- Record all serial numbers of photographed items
- Photograph receipts and valuation certificates
- Video scan the main rooms of your home
- Securely store all information in a maximum security vault
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"We highly recommend the professional services of Photosecure. Photosecure documentation will give you a detailed description of your property, independent proof of ownership and important evidence of value" Ian Foy, IAG New Zealand Ltd




Earn valuable rewards from your insurance company.

Photosecure will not only give you peace of mind but you will also earn valuable rewards from your Insurance Company.

Photosecure packages start from just \$149.00. Sandy van Heyningen, Managing Director of Photosecure has commented that most clients spend between \$225.00 and \$425.00 to develop a comprehensive record of their valuable contents.

All Brokernet clients who Photosecure their homes before 30th September 2006 will receive a 20% discount.

As a valued Brokernet client, Photosecure looks forward to assisting you to develop a detailed record of your household and personal property for Insurance and Police purposes. You will be able to relax, confident that you have taken an important step in safeguarding your valuable possessions. Simply phone Photosecure on **0800 875 875** or contact your Brokernet Advisor to arrange an appointment.

 <p>Will waive the standard policy excess on claims. Pay annual \$25.00 storage fee.</p>	 <p>complimentary deluxe photography and video scan service. Pay annual \$25.00 storage fee.</p>	 <p>Will waive \$100 excess on claims.</p>
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a ripple. There is a feeling however that another major loss of similar proportion in the near future could spark another 9/11 reinsurance aftermath.

Often there is a delayed reaction from the time the catastrophe occurs until the increased reinsurance costs flow through to retail premiums. Brokers are often able to exploit this delay by knowing when various Insurers renew their reinsurance treaty programmes. This can take as long as a year and Insurers often renew their treaties at

different periods during the year. In a future article we will expand on the history of insurance cycles, and perhaps make some prediction of what may be expected in the short term.

For now the good news is that the market remains relatively soft. There appears to be excess capital in reinsurance markets which means Retail Insurers are driving a hard bargain with their Reinsurers. The benefits are flowing through to retail premiums, at least until the next major catastrophe!

Regulation



FINANCIAL INTERMEDIARIES REVIEW

The Government is reviewing the regulation of financial intermediaries (including Insurance Brokers) in New Zealand to ensure that advice given to clients is of a consistently high standard. Clients have a right to a high level of confidence in the advice they receive as this affects not only their business or personal circumstances but also the efficiency of our economy. Intermediaries are accountable to clients and must have the experience and expertise to match clients with products and enable clients to make informed decisions.

Several "papers" have been issued by the Ministry of Economic Development and these can be viewed at www.med.govt.nz.

Although regulation can increase the costs of running a business the Brokernet believes that regulation will lead to increased levels of professionalism and enhance customer awareness.

Brokernet has been aware of this impending review for sometime and has developed an in-house. Best Practice Guideline for all member companies which encompass all facets of Business Operations and many of the requirements already signaled by the Government.

Creating the right experience

Dr Ian Brooks is one of New Zealand's leading business advisers. He has written 14 books on business management and each year he delivers 150 keynote addresses and seminars in 6 countries.

We were fortunate to have Dr Brooks as a Keynote speaker at our recent conference and we were so impressed with his knowledge and expertise that we felt that we should share this information with you, our client. We hope you enjoy the article.

To succeed in business you need profitable customers who will stay with you for a long time. That means you have to create for your customers the kind of experience that will make them want to:

- Start to do business with you.
- Pay the prices you need to charge to be profitable.
- Keep doing business with you.
- Buy some of your other products and services.
- Tell others just how great you are.

Unfortunately, research from around the world shows we don't do that.

In Britain, only 13% of companies were rated by their customers as providing excellent service. In the UK and USA, one study showed that over all 50% of consumers switch at least one major supplier every year simply because of bad service. Each year, 19% of retail customers go in search of new places to shop. A New Zealand study found 42% of Kiwis change suppliers every year. Each tells 13 other people about their bad experience and 25% of those who switch say they will never do business with that company again.

We like to think that we are getting better every year but 67% of British consumers say that customer service has not improved in the past 5 years. In the NZ survey, 15% think service from insurance companies is getting worse.

There is a huge gap between what customers want and companies offer. A study by IBM suggests customers want fast and friendly service. In a recent NZ survey on customer service, one Kiwi was quoted as saying, "You can understand how people become violent!"

The IBM study also revealed people want to deal with knowledgeable staff. In a study last year, over 80% of the people I interviewed rated staff product and service knowledge as poor or only fair.

The IBM study indicated that people would like personalised service. In a recent road show for a New Zealand-wide company, I asked some of their customers how they would like to be treated by their suppliers. Then I asked them how often their suppliers ask them that question. The answer?



Never! Now, how can you personalise the customer's experience if you don't know how they want to be treated?

The good news is that each of these shortcomings is an opportunity for you to get a competitive advantage. Make sure your product knowledge is first class. Spend time asking your customers questions so that you can deliver the kind of service that each is looking for. Be fast and easy to do business with. Most importantly, have a positive and enthusiastic can-do attitude. Make sure that every time your customers come in contact with you, they enjoy the experience and want to come back.

Remember, your customers are not just important to your business; they are your business. After all, 100% of your profits come from your customers!

UNBELIEVABLE - REALLY??

These are some of the awards for the most frivolous and ridiculous but nevertheless successful lawsuits in the United States.

A Philadelphia restaurant was ordered to pay a customer \$113,500 after they slipped on a soft drink and broke their tailbone. The beverage was on the floor because the customer had thrown it at her boyfriend 30 seconds earlier during an argument.

But wait there's more ...

Another customer successfully sued the owner of a night club when she fell from the bathroom window to the floor and knocked out her two front teeth. This occurred while she was trying to sneak through the window in the ladies room to avoid paying the \$3.50 cover charge. She was awarded \$12,000 plus dental expenses.

And last but not least

A lady purchased a brand new 32 foot Motor Home. On her first trip, having driven onto the freeway, she set the cruise control at 70

mph and calmly left the driver's seat to go into the back and make herself a sandwich. Not surprisingly, the Motor Home left the freeway, crashed and overturned. She sued the Motor Home manufacturers for not advising her in the owner's manual that she couldn't actually do this. The jury awarded her \$1,750,000 plus a new motor home. Believe it or not, the company actually changed their manuals on the basis of this suit, just in case there were any other complete morons around!!

And to prove it is not just about ladies.....

A male was awarded \$14,500 and medical expenses after being bitten on the buttocks by his next door neighbour's beagle. The beagle was on a chain in its owner's fenced yard. The award was less than sought because the jury felt the dog might have been just a little provoked at the time by the male who had climbed over the fence into the yard and was shooting it repeatedly with a pellet gun!

NEW PRODUCT SHOWCASE INTERNET LIABILITY



Are you aware that you may have legal liabilities arising from electronic communications and trading?

Cover is available for all key third party liabilities attaching to this medium:

- Transmission of virus
- Breach of intellectual property
- Defamation
- Breach of copyright
- Breach of confidentiality

Swiss Re recently announced the results of its latest Corporate Risk Survey, which surveyed sixty senior executives in six large industrial countries.

"The single greatest specific risk concern among global executives is the threat from computer-based risks. These risks constitute the only specific risk which placed in the top three for all six countries."

It is not just large corporates who live in fear of viruses and hackers. Every user, large or small, is vulnerable to viruses that can breach privacy, steal confidential information and open up liabilities worldwide.

Please contact your local Brokernet Office if you are interested in obtaining a quotation for Internet Liability Insurance.

BE WARNED -

Reparations As Compensations Are Rising



A recent article in the NZ Herald warned of the "alarming increase" in the use of reparations as financial compensation for victims of accidents.

Fines against employers have remained static in recent years but reparations have become a significant penalty. Between 2002 and 2005, the amount of total reparations awarded in health and safety prosecutions increased by more than 800 percent.

The increase in the use of reparations as financial compensation is not necessarily restricted to fatalities or serious injury but has been used even when the victim is at fault.

Fortunately employers are able to insure against reparations and many are choosing to do so.

If you would like further information about the cover available please contact your local Brokernet Office.

Source NZ Herald 7 April 2006.

The broker^{net} Advantage

Brokernet NZ Ltd is a powerful group of independent insurance brokers stretching from Invercargill to Kaitaia, each one being a leading provider of insurance advice and risk management services in their respective provinces.

Collectively the group employs 200 staff who between them place insurance business with premiums in excess of \$160million annually in local and international markets. The Brokernet group governance utilises world class best-practice, and is by way of a board of directors who meet bi-monthly. Each director has a minimum of 20 year's insurance industry experience.

Joining Brokernet NZ Ltd is by invitation only, and requires strict compliance with minimum criteria of professionalism, business ethics and integrity. Ongoing membership of the Insurance Brokers Association of NZ (IBANZ) is compulsory. The group is committed to the forming of long term customer relationships. Indeed, service continuity with skilled professionals within our group is a cornerstone of the strong

personal service ethic driven by our member companies.

Brokernet members provide insurance and risk management advice to the full spectrum of commerce and industry across New Zealand, from large public companies to all manner of SME's. Each of our staff can draw on the collective expertise and shared experience of others in the group, all to the advantage of our clients.

In support of services to business, members also specialise in the provision of personal lines insurance with access to very competitive policies backed up by a team of dedicated claims personnel 24/7.

Due to our collective buying power and resulting market leverage, clients of Brokernet NZ Ltd enjoy competitive pricing of insurance products and the advantage of tailor-made policy contracts ensuring broad coverage for some major risk exposures.

Finding us - Go to www.brokernet.co.nz for a directory of members in your area, or contact our chief executive Debbie Street on debbie@brokernet.co.nz or phone 09 413 5000.

The Insurance Brokers with Global Knowledge, National Strength and Local Service.



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* 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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