



Session III
Paper (c)

INSURANCE

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The subject insurance gives cause to most, to at best, shudder, as it is seen as an expensive item, intangible at that which shows no return on the investment unless something some event occurs and in most instances an unpleasant accident or illness.

You must however have some of this expensive intangible merchandise for the finance houses insist on it when you have finance on your machines and the forest owners insist on it before they will allow you to enter their forests. Some lending institutions even insist on large amounts of death by accident or illness cover as further security for their loans.

We are stuck with it.

I have been fortunate in working with a company which has over the years been careful in its development of this avenue of business and has shown a responsible attitude toward premium rating and profit/loss situations.

In my view this can not be said of many who move into the market and in their endeavour to obtain a share charge premium rates which experience tells us are clearly uneconomic with the inevitable result that they either drastically increase their rates or alternatively withdraw from the market. Whichever action they elect to take it is disconcerting to the insured party and disruptive to the industry.

I have seen literature mailed to contractors by broking firms suggesting membership of schemes which by weight of participant numbers it is suggested will result in increased bargaining power to force insurance companies to reduce premiums. Companies that indulge in such activities where a rate is struck on the basis of numbers without examining the quality of each risk making up the number are in my view bound to encounter problems similar to those that I have already enumerated.

One does not have to be overly bright to realise that the bad apple problem will inevitably rear its head.

I do not wish to give the impression that all schemes will not work but just to make it clear they must be formed with a firm underwriting base to continue to benefit the participants.

Particularly because of these problems and in more recent times we have made attempts to make policy wordings more easily understood. In other words drop the insurance jargon and make plain english wordings. To a large degree we have succeeded and we no longer have policy wordings which are long and difficult to understand and that is of course of tremendous assistance to those contractors many of whom now prefer to manage their own insurance affairs perhaps with a little assistance from their accountant.

So much for a little history past and more recent and a little general information.

My brief also requested that I give some attention to discussing generally machinery, public liability and loss of earnings insurances.

Machinery insurance falls into two broad categories "OFF" and "ON" highway.

Contracts for both are similar rates are different essentially because of different risk exposures. I will give examples in due course.

As most machines are under finance the lending institutions influence the type of contract to be taken.

Generally they insist on a comprehensive cover. It is in essence a contract that extends to include physical damage to the machine, not including mechanical breakdown. The physical damage can be the result of a number of causes, the most common of which are malicious, impact or fire which we have found to be the most devastating of the three. A comprehensive cover also includes of course liability to third parties.

The other less favoured option is what is known as Third party, fire theft and illegal conversion. It is a contract not favoured by the finance companies but sometimes taken by owners of freehold and lesser valued machines in an effort to reduce insurance costs. Such a contract excludes physical damage other than by fire or conversion.

I will now give some examples of rates that I must emphasise, relate to those machines that operate in the Central North Island and demonstrate the cost difference between the two contracts.

We will, for the sake of simplicity, firstly use as an example a log skidder valued at \$100,000 and the figure includes Government levies and GST, the policy excess \$1,000.

A comprehensive cover	\$2,210.00
Third party fire theft and illegal conversion	\$1,138.50

I return to my opening sentence and give another indication of premium which helps emphasise what we feel to be the difference in "ON" and "OFF" highway risks i.e. exposure.

For the purpose of the exercise we will use the example of a \$200,000 truck - all levies included the contract comprehensive, the excess \$2,000.

"ON" highway	\$6,429.50
"OFF" highway	\$4,449.50

If we were to take the same truck and insure it under the Third party fire theft and illegal conversion option the premium both OFF and ON highway would be \$2,139.50

Rates for comprehensive contracts over the variety of machines working in the industry range excluding Government levies and GST from \$13 to \$29 per thousand.

Extensions are available in the form of windscreens for enclosed machines and trucks for an additional charge most often \$25 which enables a claim to be lodged with out the imposition of the policy excess for the replacement cost.

Tyres may be insured at a rate of 3.5% of their value in the event of damage. Claims are settled on the basis of the remaining wear with no excess.

Before moving on to the subject of public liability I would again emphasise the rates indicated relate to risks situated in the Central Plateau and will vary from area to area and can also be influenced by varying levels of excess.

The requirements of forest owners with regard to the level of Public liability insurance than you are required to maintain varies quite substantially.

What ever the amount, simply put, the insurer agrees to indemnify or cover the insured for an amount in the event of physical damage occurring resultant of an event for which the insured can be held legally liable. The act or event must be resultant of negligent action - not deliberate.

What I have so far mentioned is relative to what is known as a general indemnity cover which is the basis of all public liability contracts.

There are however extensions to that contract base and in your industry two that are most important. The first is what is known as a 'fire suppression' clause.

In brief it indemnifies you for an amount, commonly in this area \$20,000, fire fighting costs and relates to the Forest and Rural Fires Act 1977. In other words using the figure of \$20,000 we as insurers would be responsible on your behalf for the first 20,000 of cost incurred fighting a fire for which you are considered to have been responsible for starting.

The second and also very important clause is known as a 'non cancellation' clause. It provides protection for both the insured and the forest owner in so much as the contract can not be cancelled with out written notice to both parties. The object is very clear.

I will not venture into the area of premium costing as the basis of is all is so wide and varied. Suffice to say in dollar terms a spread from as little as \$30 to as much as \$800 to \$900.

To conclude - Loss of earnings.

Loss of earnings, personal accident and illness income or lifestyle insurance is in essence your answer to providing or preserving your income should as the result of either accident or illness you are unable to continue to work.

Setting the level of income required can be difficult. My view is that in the event of an accident taking into account profitability and what will be obtained from ACC the difference between the ACC payment and your normal gross income should be taken. With regard to illness your normal gross income.

If your drawings from your operation are realistic they can then be channeled into employing another person to carry out at least the vital parts of your function. In selecting accident and illness cover it is very important to purchase a cover which is not selective in its application. By this I mean totally reject any contract that specifies a series of illness or accidents which it covers you for. You require cover for them all and I underline all. Nothing is more certain than if your specified cover is for German measles you'll have English. European flu you're bound to get Asian.

Most income related contracts may be extended to include a lump sum benefit in the event of death by accident. Schedule benefits - lump sum payments related to degrees of incapacity resultant of accident or even provision for the payment of medical expenses related to illness. My suggestion is that these possibilities should only be considered in the light of existing life and medical insurance arrangements.

