

# FullCover



THIS SPECIAL ISSUE OF FULL COVER HIGHLIGHTS THOSE INSURANCE ISSUES THAT HAVE COME TO THE FORE AS A RESULT OF THE CANTERBURY EARTHQUAKE

NOVEMBER 2010

## Bumps on the road to recovery

In any large loss the period of business interruption may be significant but when dealing with a large-scale natural disaster like an earthquake there are some sizeable differences.

### Some of these include:

- Limited access to premises. Many tenants were not able to return to, or enter, their premises for several days.
- Professionals in demand. With so many homes and businesses affected at the same time there are availability pressures on professionals such as loss adjusters (damage assessment) and accountants (business interruption claims). Loss adjusters were flown in from Australia and the United Kingdom to try to alleviate the demand issue.
- Prioritisation. Those worst affected were prioritised first.

- Premises in demand. Businesses that require new premises, even temporarily, are part of an influx of tenants in a market that has much reduced availability.
- Availability of tradespeople. With so many repairs needed in the community, getting a tradesperson on to the job may take some time.
- Suppliers and customers affected too. Even if some businesses are operational, the impact of the disaster on suppliers and/or customers may mean reduced capacity and demand.

Each of these issues delays the process of a business getting back up on its feet. For many businesses their business interruption insurance will have played a part in helping them manage in the interim.

## The master of disasters

HOW ROTHBURY RESPONDS WHEN NATURE PRODUCES THE UNWANTED AND UNEXPECTED

It lasted barely minutes but the effects from the earthquake that hit at 4.35am on 4 September 30km west of Christchurch will take years to overcome. It is already being talked about as New Zealand's most costly natural disaster to date. Though the human cost in trauma, anxiety and financial loss is immeasurable, the fact no one died directly from the earthquake is priceless.

Rothbury has more than 1400 clients in the Canterbury region. Since the first earthquake registered on the Richter scale we've been helping our clients work their way through this challenging time.

### Here's what we did in those early days

As soon as the earthquake struck we immediately put in place an emergency plan. Step one was to open an 0800 number that diverted to members of our claims team from across the country so we could respond to queries straight away. We received our first calls within a couple of hours.

Liz Laird, National Claims Manager, was one of the first to take calls on 4 September. Like those who had experienced the earthquake, her memories of the first encounter remain crystal clear.

"People were panicked but at the same time they were relieved to talk to a real person. They knew things wouldn't be fixed immediately and we gave a lot of advice and guidance on what they should do next to secure their property. That level of reassurance and immediate contact helped bring some sense of normality to an abnormal situation."

For those people who were able to access our website, it was updated to give our emergency contact number as well as details for contacting the Earthquake Commission (EQC).

### 24 hours later

The world was still shaking but our processes to deal with the disaster were bedded in. The day after the earthquake we sent an email out to all of our clients in Christchurch advising them of the emergency contact number and a designated email address dedicated to assisting earthquake victims.

The 0800 number and earthquake email address was manned for extended hours for three weeks following the earthquake. With these technological resources in place, the next issue was how to best mobilise our on-the-ground human resources.

Our own office in the Christchurch CBD was closed for the first week while building inspections took place. Our local team of nine did what they could to get themselves set up working from home. However, to ensure we had a reliable service to our clients, this team was supported by Rothbury's senior brokers and claims people from across the country who took calls and processed claims.

The key thing for us, and for our clients, was that despite the inaccessibility of our physical office, our IT system and nationwide network of branches meant we were operational and able to respond to our clients when they needed practical and even moral support. For as long as it takes to get things back to normal, the total Rothbury team will be on hand to help.

# The pursuit of clarification

AS THE DAYS PROGRESSED AFTER THE INITIAL EARTHQUAKE MANY OF OUR CLIENTS WERE LOOKING FOR CLARIFICATION AROUND THEIR INSURANCE COVER

Physical damage can be easily seen and understood but business interruption insurance can be more difficult to understand.

## Key points for business interruption (BI) insurance

The concept of a BI policy, in fact the concept of most insurance policies, is to place you in the same financial position after a loss as you were in beforehand.

A BI claim will only apply if there's a claim under a Material Damage policy i.e. if you've had physical damage to insured assets. If you don't have physical damage to the insured business assets there's usually provision in Special Extensions to Cover. Special Extensions are discussed later.

A loss under a BI policy needs to be quantified. The sum insured is the maximum amount payable.

The maximum period of time you're insured for is determined by the indemnity period. For example, an indemnity period of 12 months will mean you have a maximum period of cover up to 12 months from the date of loss.

## The three most common items insured are:

- Loss of gross profit/revenue, or loss of rent.
- Additional cost of working.
- Claim preparation costs.

Some of the calculations can be complicated so preparing your claim is best done with the help of an accountant or loss management consultant. Your broker or claims adviser can also help as a first port of call.

## The calculations are done in a variety of ways:

- To calculate a claim for loss of gross profit, the insurer will typically apply your normal rate of gross profit to the reduction in your turnover.
- In order to calculate the rate of gross profit, you'll need to supply financial information on past trading.
- Usually financial information for the six-months leading up to the loss is suitable. If you operate a seasonal business, it may be more appropriate to look at financial information for a longer period leading up to the loss.
- In order to calculate the reduction in turnover, you'll need to supply financial information on your trading throughout the affected period (if you're trading).
- If your business has ceased altogether for a period of time, obviously there's a 100% reduction in turnover for this period.

- If you're considering closing the business, speak to your broker and the person preparing your claim as any BI claim is likely to be settled up to the point where either the decision to close has been made, or up to the point in time where you could have commenced trading again.

## What is included in Gross Profit / Revenue cover

- Wages. Provided there's adequate allowance within your gross profit sum insured, then wages for staff should be covered. They're sometimes specified as a separate item.
- Other business expenses. Again, provided there's adequate allowance within your gross profit sum insured, business expenses that are ongoing during the period you're affected, such as rent or rates, should be covered.

## What is included in additional cost of working?

The purpose of this cover is to allow for reasonable expenditure in order to avoid a loss of profit. Examples may include expenditure such as hire of a generator for temporary power, hire of a portable building to use as an office.

If in doubt about whether expenditure can be justified or will be insured, speak to your broker and the person preparing your claim.

## When does my claim get paid?

Often your insurer can make progress payments to assist you. When your claim reaches an end, the insurer will make their final adjustments and settlement to your account for any progress payments made.

## Special extensions to cover

If you don't have physical damage to the business assets you've insured, you may still have some cover provided by your policy. These are special policy extensions and will typically allow cover to a percentage of the total sum insured.

## Common covers provided are for:

- Damage to customers' or suppliers' premises.
- Acts of civil authorities.
- Prevention of access / closure of transport routes, ports or airports.
- Loss of utilities (power, water).
- Closure due to injury or disease.
- Damage to insured assets.

# How it pays to use a broker

BUSINESS INTERRUPTION (BI) CLAIMS ARE OFTEN LENGTHY WHEN IT COMES TO WORKING OUT WHAT IS CLAIMABLE

In the meantime there are wages and other bills to keep up with.

Rothbury were concerned with doing everything in our power to assist our clients. One way we did this was to help as many clients as possible get immediate financial assistance.

Some insurers were offering \$15,000 to \$20,000 as immediate payments against business interruption claims.

We set about contacting our clients who were covered by BI insurance to bring this offer to their attention and see if they'd be interested in the financial assistance. Along with this, there were a

couple of insurers who hadn't made a decision on the availability of financial assistance. We liaised with them and got their agreement to match what other insurers were doing.

These immediate payments, for many, were priceless. As was the assistance of their brokers who managed, and in some cases even created, the opportunity for cash flow to help make ends meet.

# How underinsurance can reduce your business to rubble

WHEN THE MAJOR QUAKE STOPPED, A NUMBER OF BUSINESSES SUDDENLY FOUND THAT BEING UNDERINSURED PUT THEIR ENTERPRISES ON SHAKY GROUND.

Imagine your building is insured for \$200,000 replacement but when disaster strikes it actually costs \$400,000 to replace. You're underinsured. Out of pocket to the tune of \$200,000 even with replacement cover.

There are all sorts of reasons why businesses and homeowners are underinsured and the effects of being underinsured can be heartbreaking.

Underinsurance is described simply as not having enough cover to put you back in the same financial position after a loss. So why does it happen?

One trap many people fall into is thinking their 'replacement' cover literally means replacement. But this is not necessarily the case. Replacement cover means replacement of old for new up to the sum insured.

Another common reason for underinsurance is underestimating the value of replacing a building, plant or other assets. The time and cost involved in seeking proper valuations, minimal as they might be, can put businesses off going through this process.

Keeping costs down is another rationalisation some businesses give for underinsuring. While this gamble might help to pay bills in the short term, the small amount saved is minimal compared to a shortfall in a claim settlement. The sad reality is that when a loss happens some businesses don't recover - being burdened with additional costs due to underinsurance can push some over the edge.

When it comes to business interruption insurance there are different underinsurance issues. It's a more complex area and the best way to avoid underinsurance is to complete a worksheet with your broker to determine what adequate sums insured are. Again, it is common for businesses to skip this critical step, even for the Gross Profit calculation. Such an approach could be fraught with problems.

Again, if your sum insured for business interruption is too low from the start then it's unlikely your business will emerge from a claim in the same financial position.

Underinsurance is very common, so if you're concerned you may be underinsured, you won't be alone. Talk to your broker and make sure that, should the unwanted happen, your business will rise from the rubble.



## Practical steps to take when the world turns upside down

MAKING SURE YOU, YOUR LOVED ONES, OR ANYONE ELSE YOU SEE IN DISTRESS ARE TAKEN CARE OF MUST ALWAYS BE THE FIRST MOVE TO MAKE

The next move is to safeguard your property. Depending on the severity of the situation, this may include:

- Boarding up windows, placing tarpaulins on roofs etc.
- Taking photos of damage or damaged property.
- Making lists of damaged property.
- Obtaining documentation to quantify a claim such as receipts for damaged plant, or copy of financial statements for a business interruption claim.

Checking with your broker or insurance company before you incur any costs is always best. However, we know from experience that especially with a large-scale disaster this is impractical. Acting prudently to minimise damage and secure your property is what we recommend in these circumstances.

## Helping get clients back on their feet

EVEN WITH THE EARTH SHAKING, OUR NATIONAL CLAIMS MANAGER, LIZ LAIRD, HAS BEEN AT THE FOREFRONT OF THE CLAIMS HANDLING

It isn't just Rothbury's Canterbury branch who have had clients affected. Clients from Rothbury branches in Ashburton, Auckland, Wellington, Otago, Southland and Central Otago have also had earthquake-related claims.

Liz says, "We've processed 100% more claims in the last month than is normal."

In the early days following the earthquake the claims team reported that as much as helping clients with their claims they were also taking time to listen and reassure them. Liz says, "People were on edge and it was very emotional."

For business owners the biggest question says Liz is 'are we covered?' "People are prepared to take risks with their insurance and a big disaster like this brings home just what is at stake."



LIZ LAIRD NATIONAL CLAIMS MANAGER

# Meet the Earthquake Commission

PRIOR TO THE CHRISTCHURCH EARTHQUAKE, MANY WOULD NOT KNOW THE EQC EVEN EXISTED, LET ALONE WHAT THE BODY WAS DESIGNED TO DO.

Now the three initials have become more widely known. For more than 60 years it has been collecting premiums from insured people and during that time a substantial 'nest egg' against damage, called the Natural Disaster Fund, has built up.

If you're interested in how much of your insurance premium goes towards the EQC it shows on your invoice. It's a set amount of \$50 per house and \$10 per contents policy.

In an earthquake situation, insured homeowners are covered by the EQC for the first \$100,000 of damage to property and \$20,000 for their contents. Over and above this amount is when a person's own insurance comes in to play. The excesses on the EQC cover is 1% of the total claimed with a minimum of \$200 for property and a fixed \$200 for contents. Should a person need to claim on their own insurance no further excess applies.

## Save time online

MAKE SURE YOUR TRAVEL PLANS ARE COVERED THIS CHRISTMAS.

If you are travelling overseas or even within New Zealand we recommend you organise travel insurance as soon as you have made a booking for accommodation or travel, that way you are covered immediately should your trip be shortened or cancelled because of something unexpected and outside your control.

**Book your travel insurance online at [www.rothbury.co.nz](http://www.rothbury.co.nz)**

We've partnered with Chartis, one of the worlds leading insurers, to provide quick and simple leisure travel insurance online. It's top quality cover at a great price.

# Time ticking for earthquake claims

BE AWARE THAT IF YOU'RE MAKING A CLAIM FOR YOUR HOME OR CONTENTS FOLLOWING AN EARTHQUAKE THERE'S A 90- DAY LIMIT FROM THE DATE OF THE EVENT.



## Feedback

WE HOPE YOU ENJOYED THIS ISSUE. PLEASE TELL US WHAT YOU WOULD LIKE TO READ MORE ABOUT IN FULLCOVER.

Email [sarah.money@rothbury.co.nz](mailto:sarah.money@rothbury.co.nz) with your suggestions.

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