

The Professional Adviser

NEWSLETTER OF THE INSURANCE ADVISERS ASSOCIATION OF AUSTRALIA

SEPTEMBER 2010

PRESIDENT'S REPORT

BRIAN ENEVER

By now you will have been advised that the Board of Directors have finalized their deliberations for the future direction of IAAA. It has taken a bit longer than was anticipated, but the Board felt that it was preferable to make a carefully considered decision than a rushed one. The recommendation from the Board, as detailed in the motion form that you should have received by now, is that we transfer to the Australian Fire Managers Association (AFMA).

I would like to publicly thank the sub committee of Stan Bishop, Murray Morgan and Noel Donovan for the amount of work that they did in finalizing the finer points of the transfer, in order for this outcome to be possible.

As you should be aware, there is an Extraordinary General Meeting of the Association on Thursday, 30th September 2010, at 1.00pm sharp. This meeting will consider the proposed transfer to

the AFMA. At 2.00pm sharp, the Annual General Meeting of the Association will then be held.

As you know, the National Conference will be held in Adelaide on the 30th September through to the 2nd October 2010. The commencement of the Conference will follow after the completion of the Annual General Meeting.

It is obviously important that all members attend these two General Meetings, as well as the Conference. So please make sure that you can attend. Irrespective of what happens at the Extraordinary General Meeting, as I said in the last Newsletter, this will be my last Conference and I would like to say farewell to as many members as possible.

Brian Enever
IAAA President



IAAA
is supported by

GOLD SPONSORS
CGU INSURANCE

PACIFIC PREMUM
FUNDING

QBE INSURANCE
(AUSTRALIA) LTD

CEO'S REPORT

MURRAY MORGAN

As I prepared this our second-last Edition of 'The Professional Adviser' in its current form, I thought back over the years I have been involved with the IAAA and it was amazing how the years have passed so quickly. In fact I joined IAAA in 1992, became State Chairman (Victoria) and a Federal Board Member in 1993, Federal President in 1996 and Chief Executive Officer in 1998.

I remember when I was discussing my contract as CEO with the Board in 1998, the question of long service leave was raised and I remarked that it wouldn't apply as I expected to have found a replacement within two years – I was out by only 10 years.

All members will have received the recommendation from their Board with regard to the future of the

IAAA, and more importantly, their future. I can assure all members that the sub-committee of Secretary Stan Bishop, Noel Donovan and I have worked diligently to ensure the best possible outcome for you, the members. We believe that the final result is in the best interests of both IAAA members and the members of the AFMA.

On behalf of all members, I must thank Noel Donovan for his usual outstanding performance with his input of his knowledge and skills, not to mention the many hours he has contributed. It is a very rare thing for Noel to be outshined in any of his endeavours but for once, despite his efforts, your Secretary Stan Bishop put in an even more outstanding effort. I would hate to try and calculate the number of hours he has contributed

Cont. on page 2

IAAA CPIA'S

BARRY CARTER
WILLIAM COLLINS
FRANK CRADDOCK

PETER DRAKE
ADRIAN MATHIESON
JOHN MAY

CYRIL THOMPSON
BILL TODD
MIK TUZ

NEIL PARSONAGE
KERRIE WOODARDS

CONTENTS

Dr. Allan Manning
Removal of Fire
Service Levy in
Victoria
Page 3

Speech by Ms
Joan Fitzpatrick,
CEO, ANZIIF
Page 4

Dr. Allan Manning
'Indemnity' versus
'Reinstatement'
– what's the
difference?
Page 6



An ongoing commitment to Authorised Representatives

QBE is proud to have been a long term supporter and a Gold Sponsor of the IAAA since 2003.

The team from QBE look forward to joining you in Adelaide for the IAAA Conference 2010 and to sharing some great experiences.

Make sure you visit our exhibition stand to see QBE's latest offerings, and celebrate another successful Conference at the Finale Dinner, Sponsored by QBE.

QBE Australia

General Insurance Company of the Year 2010:
Australia & New Zealand Insurance Industry Awards

To learn more about QBE's latest initiatives, contact your local QBE representative, or visit www.intermediary.qbe.com.au
QBE Insurance (Australia) Limited ABN 78 003 191 035 AFS Licence No 239545



CEO Report - Cont., :

on your behalf. IAAA has been indeed fortunate that these two gentlemen came to my assistance, as I could not have hoped to have achieved this result without them. If IAAA had Life Memberships these two would surely have been awarded them.

This is only a recommendation and all financial members will have the right to express their wishes when they vote at the EGM which will take place prior to our AGM at the Adelaide Conference on Thursday, 30th September 2010.

As usual we have some excellent articles in this issue and we are doubly blessed this time as we have not one, but two, articles from our very great supporter, Dr Alan Manning. The first highlighting the almost unbelievable victory of FSL in Victoria and the other on the importance of understanding the difference between 'Indemnity' versus 'Reinstatement'. I recommend both these articles to you.

I was fortunate to be a guest of ANZIIF at their Annual Awards Night on Thursday, 12th August 2010 in Sydney, and to hear the very powerful speech by the CEO, Ms Joan Fitzpatrick, including the announcement of ANZIIF's new initiative on "Non-Insurance/Underinsurance" - "KNOW RISK". Joan has been a long-term supporter of IAAA and

Cont. on page 8



The IAAA's 'Professional Adviser' Newsletter is produced quarterly for the Insurance Advisers Association of Australia.

A.B.N. 19 008 657 136

Postal address:
PO Box 597, St Albans, Vic 3021

Phone: (03) 9390 9355
Fax: (03) 8390 7877
Email: info@iaaa.com.au
Web site: www.iaaa.com.au

Editor: Murray Morgan

All material published in The Professional Adviser is subject to copyright and no part may be republished without written permission.

Opinions expressed by contributors are their own and are not necessarily endorsed by the Insurance Advisers Association of Australia.



Removal of Fire Service Levy in Victoria creates opportunity for Insurance Industry



Twenty six years after the Queensland government realised the inequity and consequences to the community of charging a Fire Service Levy ('FSL') on general insurance, the Victorian Government announced today that they would be replacing FSL with a much fairer broad based property tax. That is a charge on property rates.

I have called today 'Victory over Fire Service Levy Day' to mark the achievement that many of us in the industry have fought for, for so long. This individual battle may be over but the war on taxes on insurance will continue.

First we now urge the governments of New South Wales and Tasmania follow suit. None of us want to see the massive loss of live and uninsured property losses arising out of the Victorian 'Black Saturday' fires to occur before common sense prevails in those states.

Secondly, we have to remove the iniquitous stamp duty charged by all state governments on insurance

to be dropped as well. The Queensland government is considering this for life insurance products and the push is to have this extended to all insurance.

The great win the insurance industry has been awarded by the Victorian Government will be completely wasted if we simply hand back to all the insured's the saving in overall insurance costs. We all need to encourage every single insured to review their insurances and ensure they have all the covers necessary to protect their home, contents and businesses and that those that they do have are adequate.

There is no better time than now for this message to be driven home to Insureds that the reason that you and the industry in general fought so hard for the removal of Fire Service Levy in your state or territory was to allow them to afford full protection.

Please do not let this golden opportunity pass without a concerted effort. To do otherwise would be a great disservice to the insuring public and to all those that fought so hard to have the taxes removed.

Author: Dr Allan Manning, Chief Executive of LMI Group is one of Australia's leading experts in insurance. He is the author of 9 books set up the NoTaxOnInsurance.com.au website to educate the public on the consequences of taxing general insurance.

InsuranceNewsAustralia.com



THE INSURANCE & FINANCIAL BRIEFING Electronic News for The Insurance and Financial Sectors

news@insurancenewsaustralia.com

Australia and New Zealand Insurance Industry Awards

Thursday 12 August, 2010 - Sydney Exhibition and Convention Centre

SPEECH: Ms Joan Fitzpatrick, CEO, ANZIIF

Distinguished Guests, Ladies and Gentlemen

Let me extend a warm welcome to this, the two thousand and ten (2010) Australia and New Zealand Insurance Industry Awards.

As always, I am delighted to welcome our eminent guests here this evening.

We gather here as an industry to celebrate the achievements of our best and brightest - the finalists and winners of the Australian and New Zealand Insurance Industry Awards - those companies and individuals who have not only achieved great things in 2009 - but have taken pride in their achievements and have done much to foster a more positive image of our industry and its role in society.

We gather here to celebrate your accomplishments - not just as individuals or as companies but as an industry.

The last few years in particular have demonstrated the professionalism, dedication and commitment of the insurance industry in the most unequivocal way.

In handling several natural disasters you have provided rapid response, care, support, hope and billions of dollars towards rebuilding communities.

We gather here to celebrate that in spite of a global financial disaster you have remained strong and stable -demonstrating the depth of your skill, knowledge, practices and governance frameworks.

Last year, in this room, I spoke of some of the issues that we face as an industry.

While all of these issues, such as market growth in Asia, the affects of the technological and informational revolution and talent development, are important - three in particular are key to the future of our industry and all who participate in it.

Too many people in the community have poor financial literacy.

Understanding about insurance at all levels

of Australian and New Zealand society, from government to the man on the street, remains desperately low.

Large percentages of our populations, both here and in New Zealand, have inadequate levels of insurance cover.

The insurance industry, and by association those who work in it, has a poor image that is neither warranted nor deserved. Each of these issues is intertwined.



Improved levels of financial literacy and in particular understanding of insurance and risk management is crucial to both our nation's economic futures.

Last year, I promised the industry that we would work to help address the non and underinsurance issue, the poor image of our industry and the state of financial literacy in the community.

Tonight I report back on our progress.

We consulted far & wide and we considered many options.

In the end, we understood that the most powerful and effective approach we could offer our industry was to develop a community education platform bringing together the skills, knowledge and experience of the industry with the vast communities of people online.

This evening I present to you the beginning of a long-term building plan requiring industry-wide commitment.

By making use of communication and community building technology, we will develop an online platform through which members of the community can find out more about insurance, discuss both practical and financial risk management, share ideas and information with others, and utilise tools to ensure that they make the right decisions about insurance.

We will develop an online platform that will build community resilience across Australia and New Zealand.

Through this portal users will arrive at a better understanding of insurance and how it works.

It will be important for these issues to be dealt with in an independent way that doesn't push any particular commercial interest.

As an industry association and education provider it is natural for the Institute to take the initiative in this way.

Users will be able to see short videos exploring risk management and insurance as applied to everyday people in everyday situations.

They will be able to make use of interactive tools which will indicate their most likely insurance needs and the possible products that they would require to fulfill them.

They will be able to take part in quizzes and interactive stories which will assess their "risk awareness" and also offer advice and learning opportunities so that they can improve this.

They will be able to make use of ready-to-hand services storing quick facts about their cover such as who it's with, what it includes, when to renew their policy and when to update their cover.

They will be able to take advantage of tools that enable them to quickly and easily move around their homes, creating an inventory of their possessions to ensure more accurate coverage, reducing under-insurance and improving understanding of what is needed to be appropriately covered.

They will be able to communicate with other people to talk about their experiences and add value through both practical and financial risk management discussion - creating a better informed, better engaged and more resilient community.

This portal will also act as an aggregator - drawing together the huge amount of work already done by many organisations in many different places to assist people to mitigate their risk and to address both the practical and financial aspects of risk management.

This will make the most of partnerships, such as those already in place with for example the Victorian Country Fire Authority drawing together safety and riskmanagement knowledge for both urban and rural areas; and with LMI Group taking advantage of their significant experience in developing easy to use policy management and interpretation tools for the industry.

They will also be able to see video interviews of insurance professionals - real members of our professional community talking about what they do, how they help people and what working in insurance means to them.

This will offer a vitally important opportunity for members of the public to meet members of our community outside of a sales environment.

We realise that this is a huge task - but it is a worthwhile one and one we must not shy away from.

We also know that it is not a task that the Institute can complete alone.

Much of the last 12 months have been spent meeting with leaders of our industry, leaders in government and in the community.

We have achieved support in many different guises and will continue to do so as we move towards the implementation of this project.

This is the industry's program, not the Institute's and for this venture to succeed the industry must stand united.

I am delighted to say that the following organisations have already joined with us to participate on the Steering Group, to coordinate the next stages of this project.

- National Insurance Brokers Association,
- Australasian Institute of Chartered Loss Adjusters,
- Risk Management Institution of Australasia,
- Financial Services Council,
- Financial Ombudsman Service,
- Insurance Council of New Zealand, and
- Insurance Council of Australia.

We will work together to ensure that the best possible outcome is achieved.

I ask each of you as individuals and I ask each company to get on board, to make this project part of your personal and corporate legacy.

I ask each of you to stand up and be counted, don't leave it for others, make a sound strategic judgement and let's get together to make this project successful.

Thank you and enjoy your evening.

'Indemnity' versus 'Reinstatement' – what's the difference?

The term indemnity is often incorrectly used to describe a category of compensation that is distinct from reinstatement.

By Dr Allan Manning and Peter O'Brien of the LMI Group

To indemnify means to compensate, whether by way of reinstatement or depreciated market value. The ordinary grammatical meaning of indemnify includes compensate, recompense, repair and make whole again.

It has become common practice to differentiate between indemnity and reinstatement (or where repairs are not embarked upon, replacement) as two distinct categories of compensation.

This fallacy owes its origin, in part, to a convenient means of differentiation between a market related value and the cost of reinstatement (or replacement). This potentially artificial distinction between the two scenarios has, to an extent, been perpetuated by the courts.

Reinstatement, as a method of compensation, is a

form of indemnity. Certain policies define indemnity as constituting reinstatement and the courts have held that, in appropriate circumstances, the appropriate measure of indemnity is reinstatement.

Despite the underlying principle of insurance to place the insured in a pre-loss position, the stark reality of contemporary policies (which may provide for reinstatement value and a variety of additional benefits) is that insureds can and do profit from losses. An insured whose ageing printing machinery is replaced pursuant to a loss is undoubtedly in a better position than he was prior to the event. However, where an insured is given 'new for old' compensation, he is nonetheless being indemnified.

At common law (i.e. in terms of the principles enunciated by the courts over the years) there are several ways that a loss can be quantified. The most



Big and small together...
gives you the best of
both worlds.

The strength of a global partner with the
personal service you deserve.

If you want the best of both worlds, call one of our
premium funding experts today on **1300 555 068**
or visit www.pacificpremium.com.au



common method of determining the indemnity value of a building, or piece of plant or equipment, is to start with its full replacement value and then make adjustments for the age, wear and tear, and the general condition of the item.

A second method is to determine the value of the property prior to the loss compared to its value after the damage. In the case of land, this value is usually determined by a registered valuer and in the case of other property, by specialist valuers. Where equipment is involved, the post-loss value is often only a small percentage of the replacement cost, or may be confined to the salvage value or, in the instance of obsolete but functioning equipment, there may be no value left at all.

With buildings, the method may only be appropriate where the property was for sale at the time of the loss. It is unlikely to be a fair measure of indemnity if the insured had no intention of selling the property and was holding it as an ongoing income-earning asset, or if it was the insured's family home.

The difference between the pre- and post-loss values approach represents an objective value to others, but ignores the intrinsic loss that the insured has suffered. If this approach were to be universally applied, in many cases it would be rather

meaningless for an insured to arrange cover for an old building where the value of the land exceeded, or was the same as, the combined value of the land and buildings.

With items of plant and equipment or contents, the second hand value may be the most appropriate, especially if the risk has been assessed, and the premium calculated, on the second hand value. Many policies avoid any confusion by defining exactly how the damages are to be measured, such as is frequently found under a 'Basis of Settlement' clause.

Although there are other methods of valuing property, these are beyond the scope of this article. A more comprehensive treatise of the topic can be found in Dr Allan Manning's soon to be published *6 Principles of Insurance*.

Although many of us are guilty, to varying extents, of using the terminology of indemnity and reinstatement/replacement as mutually distinct categories, they are often one and the same. In practice, the overlap between the terms seldom poses a problem as the various methods of calculating a loss do not hinge on the terminology in isolation but rather are interpreted according to the facts and specific policy wordings.



CGU. Insurance for every Australian.

At CGU, we've been caring for Australians for almost 150 years, with a comprehensive range of insurance to help protect every aspect of your life. So whether it's commercial, rural, personal or workers' compensation, find out what we can do for you.

Talk to your CGU account manager today.

www.cgu.com.au

CGU Insurance Limited ABN 27 004 478 371



Commercial

Rural

Personal

Workers' Compensation

CEO Report - Cont., :

has attended most of our Conferences from the first and hopefully to this our last in the current format.

I have been disappointed in the registrations for this Conference as the numbers do not match the survey responses, BUT I promise all those attending, very informative speakers to earn your 12 CP points, an excellent venue which was only opened in late May this year.

Two magnificent dinners with excellent (local) wines and the opportunity to meet not only the lovely FUNI and handsome WANG WANG, the Adelaide Zoo's famous Pandas, but also to spend some relaxing time at the Zoo itself.

I look forward to catching up with as many members as possible at this our 12th Conference.

Regards
Murray Morgan
CEO, IAAA

Hey you! Yes You! I'm Looking at you!

My good friends the lovely Funi & that handsome devil Wang Wang are awaiting your visit on Saturday 2nd October 2010 after the close of the last business session of the IAAA Adelaide Conference.

So make sure you don't disappoint them or I will be one ANGRY PANDA.

IAAA CONFERENCE 2010



A D E L A I D E