

MORE THAN

Picking up the pieces

Lessons learned from the Canterbury quake





Out of a catas

When an earthquake struck the Canterbury region in the early hours of Saturday 4 September 2010, it set into motion the largest insured event in New Zealand history.

It's been over two months since the Canterbury earthquake and during that time the insurance industry has responded in a hugely professional manner, providing support and comfort to tens of thousands of customers.

Having chosen a career as an insurer, I was hoping to get through my entire working life without having to face the effects of a major disaster. I didn't make it, and in hindsight I'm now glad I didn't because seeing the response of the industry, and of Lumley in particular, has been a highlight of my career.

I am very proud of the way we as an industry have responded. There has been a feeling of unity across the market in the way we have put our customers first, and worked collectively with other organisations, such as local bodies and government agencies, to best meet the needs of our customers.

I am doubly proud of the way Lumley responded. We immediately had people on the ground assisting our branch staff and local brokers, and quickly established dedicated claims teams to service the incoming earthquake claims. We promptly got on top of the operational challenges, maintained high customer service standards for all claims, and worked hard to ensure our stakeholders were kept informed of our progress. It's important to acknowledge that our strong response was no accident – it is the direct result of the many positive changes we have made across our business over the past 18 months. Our new Guidewire Claims system proved exceptionally useful to process large volumes quickly, and was supported by the major investment we have made in building our claims teams' capability, and most critically, the cultural shift we've made to adopt a stronger customer focus across the business.

One of my abiding memories of the earthquake is of visiting a number of customers in their homes and seeing and hearing about its impact on them first-hand. It is vital that we retain that human insight as a business, and as an industry. I believe that we have handled the first phase of the earthquake response extremely well, but in many respects, that's been the easy bit. The hard part is yet to come as the long process of reinstatement gets underway. That's when we will be seriously tested as an industry and as insurers.

One of the ongoing things to think about is how we take the lessons from such a crisis and apply them to everyday life. There's lots of key learnings that have come out of this event that will improve the way we work moving forward. Personally, I cancelled a lot of internal meetings immediately after the quake and was able to spend lots of time with our teams, and checking in with brokers and partners. And guess what – the world didn't stop when the meetings didn't take place! So I've resolved to have fewer meetings and get out more.

You know as well as I do that there is still a long road ahead in managing this catastrophe. But I strongly believe that if we continue in the same vein as we have started out – by delivering on our promises to customers – we'll all emerge from this the better for it.

Regards,

John Lyon
Chief Executive Officer

With damages expected to reach in excess of \$2bn across the industry, this event will have far-reaching implications for both the local and domestic market for some time to come.

At Lumley we are very proud of the way our team have handled the earthquake. We've learnt a lot from the experience and feel it's important to share these key learnings with our brokers.

What has the earthquake taught us?

Property Adequacy of sum insured has emerged as a key area of concern, with more than 50% of all earthquake-related claims lodged with Lumley being underinsured.

This demonstrates why regular reviews of sums insured are vital. In particular, this is important for businesses that use specialist equipment. The cost of replacing this type of equipment increases significantly over time as parts become scarce. If your clients are not obtaining valuations for their plant and contents it is pertinent to encourage them to keep an updated and detailed record of replacement values.

Adequate Gross Profit sums insured need to be set correctly so they work hand in hand with the indemnity period, particularly when delays are caused by a wide-area disaster.

Large-scale events such as the Canterbury earthquake will inevitably create a demand surge, causing delays in rebuilding. Issues with accessibility, availability of materials, labour shortages and delays in receiving council approvals could see clients waiting months before work commences.

The tear-off 'Take Cover' article overleaf provides a checklist about this for you to pass on to your clients.

Liability With Canterbury clients making significant claims to rebuild their homes and businesses, it is to be expected that there could be cases where a client, unhappy with the advice they have been provided with by their broker, will look to make a claim against their broker's Professional Indemnity policy.

Prevention usually wins out as the best course of action to avoid claims.

As part of best practice, here are some tips for you to follow.

Best practice tips

- » Fully discuss with your client any changes in their business.
- » Don't understate anything – if there is a need for more comprehensive cover, ensure that this is emphasised and explained.
- » When going through the renewal process make sure that relevant limitations are expressed in writing and separately highlighted.
- » Give your client plenty of time to consider the renewal terms.
- » Don't just focus on the premium – even though the client may see this as the most important aspect of the renewal process.
- » Make a note of all verbal communication.
- » When responding to any questions, reiterate the relevant limitations of the policy.

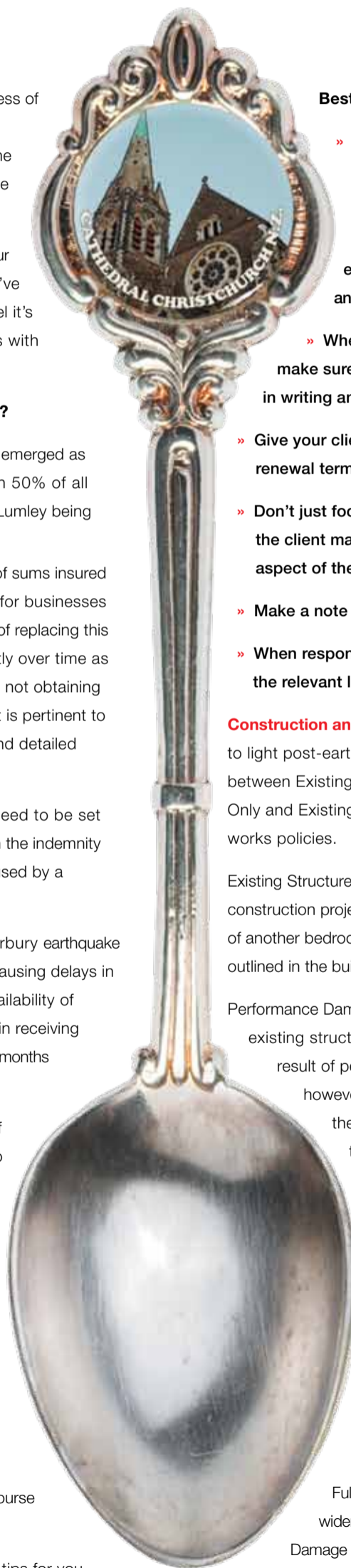
Construction and Engineering A key issue that came to light post-earthquake was the lack of understanding between Existing Structures Performance Damage Only and Existing Structures Full Cover in contract works policies.

Existing Structures cover is usually required where the construction project involves an existing building (an addition of another bedroom to a dwelling for instance) and is usually outlined in the building contract.

Performance Damage Only cover provides for damage to the existing structure caused by the insured parties as a result of performing the building work. Full Cover, however, provides cover to the contract works and the existing structure from any cause (provided that it is not elsewhere excluded) and is not limited to losses as a result of the performance of the project.

What's the best fit? Performance Damage Only cover for existing structures works best when coupled with a concurrent Domestic or Material Damage policy providing cover for non-contract-related losses. This way the existing structure is covered for both contract and non-contract related losses.

Full Cover Existing Structures doesn't give you the wider capacity of a Domestic Home or Material Damage policy. It is usually applied to homes that have been relocated to a new site and don't have Domestic cover in place or a building which is in a state of disrepair and undergoing substantial building work to make it habitable.



This article has been written for you and your clients.
Feel free to tear this off and pass it on to them.

Coping with a crisis

Tips to ensure you have the appropriate Existing Structures cover

- » Check the building contract for the requirement to insure existing structures.
- » A project involving existing structures should be principal controlled.
- » The same insurer where possible should be used to insure the Contract Works / Existing Structures and the ongoing Domestic / Material Damage policies.
- » Full Cover Existing Structures should only be applied to projects involving buildings where there is no current insurance or no implications of having a more restrictive cover.

Crisis Management The way in which an organisation responds to a crisis can generally be attributed to their level of business continuity and crisis management planning. There were four key areas that Lumley focused on in relation to our response to ensure we supported all our key stakeholders.

1. Our staff

Lumley's first step was to secure the welfare and safety of our team in Christchurch. Contact was immediately made with all staff, and steps taken to assist with their emotional security, and to help re-establish normality as quickly as possible for them and their families.

2. Senior leaders on the ground

Lumley's GM Broker Distribution, Dean Edwards, arrived in Christchurch the day after the earthquake, with other senior leaders travelling down over the following days and weeks. Their presence was essential to coordinating our approach in the area, influencing local body and government decisions, and determining how to best support our brokers. It also gave support to our branch staff as they returned to work.

3. Business structure

A relatively flat business structure meant important business decisions were made swiftly and put into action, ensuring a speedy response to issues and events as they arose. With a dedicated crisis team established to manage the earthquake, the impact was internally controlled, allowing 'business as usual' to continue.

4. The importance of communications

This event was a great communications exercise, testing the work that has gone in over the past few years to improve Lumley's internal infrastructure and capability. This meant the team could quickly identify key stakeholders in the catastrophe and provide regular, tailored updates that ensured everyone felt informed of developments and decisions as they were made.

There will still be a lot we can learn from this event over the coming months as the rebuild begins and other earthquake-related issues and challenges come to the fore. While we all hope to never experience another event like this in our lifetimes, it is certainly better to be prepared and ready for any eventuality.

Tear off here and share this with your clients

After a disaster, it is the job of the insurance industry to help people get their lives 'back to normal' as quickly as possible. But when the event has been particularly traumatic, those affected may also need emotional support.

While the Canterbury earthquake is the first example that springs to mind, having your house or business burn down, experiencing a large flood, or simply being taken to court over business legal proceedings could have a similar upsetting effect for some people.

Many experience powerful emotions after a traumatic event – including feelings of shock, numbness, disbelief or denial that the event even occurred. Fear, helplessness, anger, sadness and shame are also common reactions.

We received reports from a number of our surveyors and loss adjustors who went to Canterbury immediately after the big quake about their first-hand experience of how people react in such an event. They visited clients who were extremely upset and scared, particularly those with young children or who lived alone. There were also some who experienced significant health issues due to stress caused by the quake, and others whose homes were not affected but were concerned about how their businesses would survive.

"When a disaster like the Canterbury earthquake happens you realise just how much people rely on you. Behind every claim there's a real-life family or business that's been affected," says Dean Edwards, GM Broker Distribution. "It's a very sobering thought when you realise so many families and their livelihoods rely on you helping them to literally rebuild their home and business, and get them back on their feet again. It's an important role to play."

Everyone will respond differently to a crisis, with emotions potentially lasting from a few days to a few months. For anyone who has been affected by a traumatic event – and this could be any kind of event that disrupts their lives and makes them feel powerless – the following advice may help them get through this difficult time.

Tips for dealing with any traumatic experience

- » **Stay connected** Following a trauma, some people might feel like they want to withdraw from friends and family, but isolation will only make things worse. Encourage them to keep up contact with friends and family.
- » **Establish a daily routine** In order to stay grounded after a trauma, it helps to have a structured schedule to follow.
- » **Keep healthy** A healthy body increases the ability to cope with stress. Getting plenty of rest, exercising regularly and eating a well-balanced diet will all help their ability to cope during stressful and traumatic times.
- » **Ask for support** If emotional support is needed, there are many community support lines available to contact. Local Citizens Advice Bureaus will be able to provide a list of available services.

Remember that if someone has just been through a distressing experience they may not always react positively to attempts to help them. Be patient and understanding. Even if they don't appreciate support now, they will later.

Help for brokers

We continue to extend our offer of support to affected brokers with access to our EAP Services. EAP can be contacted via their email address eqs@eapservices.co.nz or on **0800 327 669** to arrange a face-to-face appointment or to receive their services over the phone.

This service will be provided for you free of charge as Lumley will cover the cost of accessing these services. You will just need to advise that you are calling under the Lumley partner agreement when you phone or email.

We have already had brokers take up this offer and make use of this service, and we encourage anyone who is feeling overwhelmed by recent events to get in touch.

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Take Cover

Over the past month we've read or heard about people whose homes and businesses were destroyed in the Canterbury earthquake. What makes this even more of a tragedy is that some people underestimated the value of their properties or simply forgot to update their policies, and therefore did not have adequate insurance cover.



Take, for instance, one business owner who insured his commercial building for \$300,000 Replacement Value. In reality this property will cost more than \$500,000 to completely rebuild. Unfortunately, the business owner had not updated his sum insured over the years leaving him in a situation where he is now significantly underinsured and facing some real dilemmas about what to do next.

This case highlights the need for you to provide your broker with regular updated valuations. We recommend that building valuations are conducted at least every two years, and plant and contents every two to three years, so that your sum insured remains adequate.

From the claims we have settled so far, more than half show signs of underinsurance on the buildings and contents, and there is a similar proportion of cases where our Business Interruption customers have either elected not to insure their Gross Profit or have not adequately calculated the correct Gross Profit sum insured.

The other big issue we are seeing is the Indemnity periods for Business Interruption policies selected in a lot of cases appear to be too short. We would recommend you select a minimum of 18 months for your Indemnity period or longer depending on the type of business you are in. Talk to your broker for advice on setting the right Indemnity period for your business.

It seems shocking, but the reality is a large number of New Zealand business owners are completely unaware that they are underinsured. So how does this happen? Most people take out insurance when they start their own business, but don't think to review their policy on a regular basis.

How can you make sure that you have the right cover?
Assessing your policy on an annual basis with your broker

will help you take stock of any changes you have made to your business, or any newly purchased high value items that need to be added to your policy in-between valuations.

Take a few minutes to go over this checklist with your broker and record any new risks to ensure there are no gaps in your cover.

Insurance Checklist

- » **Make sure you carry out regular valuations of your business. Every two years is ideal, but every three years is acceptable.**
- » **Keep a record of any purchases, alterations and improvements made to your business in-between valuations and make sure your broker is kept up to date with these changes.**
- » **Review your Business Interruption policy every year. Ensure you thoroughly review the Gross Profit, Additional Increased Cost of Working, Claim Preparation Costs and Indemnity Period items so they adequately reflect your current business needs.**

Keeping your business insurance policy up to date will give you peace of mind and ensure that you are protected, even if disaster strikes.

More Than is printed on environmentally friendly stock. The pulp is manufactured using Elemental Chlorine Free (EFC) processes, sourced from sustainable forests and holds PEFC Chain of Custody Certification, which is a European standard ISO 14001 Environmental Management Systems certificate.



In house

Winner of the Innovation of the Year Award

The added value we offer clients through our commercial motor portfolio has just been recognised at the IBANZ General Insurance



Industry Awards. We won the 'Innovation of the Year' award for our online fleet management system, Torque Data. This great interactive online tool was developed exclusively for fleet operators and is a key part of the free Torque Fleet Risk Management service available to all your Lumley clients as part of their Commercial Motor policy.

Get ready for Your Edge



The date has been set for the 2011 Your Edge Liability Symposium.

Always a popular and highly educational event, Your Edge will be held at Skycity Convention Centre in Auckland on Tuesday 16 August 2011.

Invitations will be going out in the New Year, so be sure to keep an eye out for yours. You won't want to miss this!

Launch of Policy and Billing Systems fast approaching

Work is progressing on the implementation of Guidewire PolicyCenter and BillingCenter to replace Lumley's current policy legacy and billing systems.

This is an exciting new development for Lumley which will enable us to be more responsive and to deliver better value to our customers.

Phase 1, which includes Personal Lines and Commercial Motor, is set to launch in February 2011, with other lines following in Phase 2 during 2011.

We'll be in touch with more information on these new systems and the improvements you can expect once they are implemented.

Making a difference at Propel

Thanks again to everyone who visited the Lumley stand at the IBANZ conference in August this year. We had some fantastic feedback on our charity auctions, which managed to raise \$21,410 for a variety of New Zealand charity groups.



Lumley donated the main auction prize – a trip for two to watch the All Blacks live in Hong Kong along with a unique artwork created by thousands of fingerprints donated by the attendees over the course of the conference. Margaret Watterson of Nexus Insurance Brokers won this prize with a winning bid of \$6,800 which she donated to Starship Children's Hospital.

Thanks for helping us make a difference to those less fortunate.

Tear off here and share this with your clients



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