



Fed Govt: act on climate change 'now'

There are only two choices when it comes to climate change – action or inaction, and it is important to act now, says fed Treasurer Wayne Swan. He supported PM Rudd's Nov 6 [speech](#) to the Lowy Institute on the global response to climate change, when he said Aust's environment and economy would be among the hardest and fastest hit by climate change. Rudd said about 700,000 homes and businesses around Aust's coastlines were at risk from storm surges and rising sea levels. Insurers had warned an estimated loss to property values, through land being inundated or eroded by rising sea levels, ranged from \$50bn to \$150bn, Rudd said. Moreover, problems with sceptics were a challenge. They were "powerful enough to threaten a deal" on global climate change responses at the Copenhagen climate change [conf](#) in Dec 7-18 and beyond, he said. The Fed Govt was determined to pass the carbon pollution reduction scheme, so investment certainty would be delivered for Aust businesses, Rudd said. CSIRO and other expert bodies had outlined Aust's implications. Aust temperatures could rise by 5°C by the end of the century if national and global action on climate change was absent. By 2070, up to 40% more months of drought were likely in eastern Aust and up to 80% more in south-western Aust. The Murray Darling Basin irrigation system, set up to insure against the effects of drought, could see agricultural production fall 90% by 2100.

FOS will tackle growing disputes

Newly appointed FOS general insurance ombudsman John Price y'day told CN it would be an exciting time for FOS as new terms of reference started from Jan 1, 2010, across the segments. He officially starts in his full-time role on Mon. Since 2004, Price has acted as a referee, adjudicator and panel chair for FOS. He said FOS's guidelines had developed a good external dispute resolution scheme to benefit consumers and the insurance industry. Most disputes arose from policy terms, non-disclosures and exclusions. FOS had an objective to resolve misunderstandings in an efficient way. In the past 12 months, FOS decided about 80% of general insurance industry disputes, which amounted to about 2,000 consumer disputes,

and the number of disputes was growing. But FOS's ability to make binding determinations gave it an educative role by resolving matters that might be systemic to the insurance industry. FOS held regular liaison meetings and open forums with insurers. FOS board chair Prof Michael Lavarch said John "is well-known in the industry and will play a key role in building on the strong foundation we have in place with the single amalgamated FOS". Price has worked in law and legal training in Vic for more than 30 years and served as a State Trustees Ltd dir and State Trustees Aust Foundation chair.

Berkshire posts interim result

For several reasons, Berkshire Hathaway Inc's results for interim periods do not normally reveal results expected for the full year. Berkshire said catastrophe losses and an estimated error allowed in the process of determining liabilities for insurance subsidiaries' unpaid losses became more significant to interim results than the full year. In Berkshire's form 10-Q, third quarter [results](#) to the US Securities & Exchange Cmn, its balance sheet continued to reflect significant liquidity and a strong capital base. Consolidated cash, insurance investments and other businesses were \$US143.4bn (\$A154bn) as of Sept 30, up \$US21.4bn (\$A23bn) from Dec 31, 2008. Cash and insurance cash equivalents and other businesses were \$23.8bn (\$A26bn) as of Sept 30. Investments were mostly held in Berkshire's insurance businesses. From March 23, Berkshire acquired a 12% "convertible perpetual capital instrument" issued by Swiss Re at a CHF3bn (\$A3.2bn) cost, Berkshire said ([CN 1619](#)). From March 23, 2012, the instrument could be converted at Berkshire's option into 120m common shares of Swiss Re (a rate of 25 CHF per share of Swiss Re common stock).

Allianz insures a safe road passage

Allianz has written a 'project cargo and delayed start-up' cover to insure transporting Vic Mortlake Power Station's components. On Oct 24, the first road convoy of the power station's turbines and generators was transported 240km from Port Melbourne to Mortlake. The gas-fired power station was a 550 megawatt, \$640m [project](#) to be built by Origin Energy and completed by summer 2010-11. (*Cont'd p4*)

Well owner prepares insurance claim

Thai-based PTT Exploration & Production Public Co Ltd (PTTEP) says it is working on a claim to lodge with its insurer for losses from the 10-week-old oil and gas leak and subsequent fire at its Montara offshore well in the Timor Sea. PTTEP said the 5,174m baht (\$A167m) cost of the incident included drilling a relief well, cleaning up and delays for other projects. It held a \$US270m (\$A290m) policy with an undisclosed insurer that would cover the incident. "The company is now in the process of claiming with the insurer." CN news assoc *Environmental Manager* has reported Seadrill, owner of the West Atlas drill rig that caught fire during the operation to plug the leak from PTTEP's Montara well-head, expected to receive a \$US200m (\$A216m) insurance payout if its rig was written off.

Medibank Private supports pet care

Medibank Private (MP) has partnered with animal welfare organisation, the Lort Smith Animal Hospital, almost a year since MP launched its pet insurance. MP would provide volunteer staff to help Lort Smith with its work, caring for more than 100,000 lost, abandoned, mistreated and sick animals each year. MP was a key supporter of a 'pets are loving' support program, where community volunteers and their dogs visited hospital patients and nursing home residents to boost patients' wellbeing. To celebrate the partnership, MP would donate \$5 to Lort Smith for every new pet insurance policy sold from Nov 9 to Dec 24. MP health insurance CEO Bruce Levy said following its success in entering the pet insurance market, supporting animal welfare in the community was the right thing to do. Lort Smith Animal Hospital CEO Ric Holland said: "As Aust's largest animal hospital, we are very aware of the impact the cost of veterinary care can have."

'Best practices' shared at summit

More than 20 organisations from the US, Canada, Aust, NZ, Europe and Africa attended a Fineos annual claims global summit on Nov 8-9 in Chicago, US, in record numbers. Fineos exec VP Ian Lynagh said innovation and excellence awards would be launched next year to honour Fineos clients' use of claims technology in their operations. Fineos CEO Michael Kelly said the summit was a great opportunity for insurers from different business lines and continents with various project requirements to meet and share best practices. Kelly said new claims deals, including Thorntons & Partners (Ireland), FBD Insurance (Ireland), Macquarie (Aust), SalusAnsvar (Sweden) and Saskatchewan W/Comp Board (Canada), were made since the last summit. The fastest claims system to go live was achieved by Aust

bancassurance grp Macquarie, a Fineos spokesperson, in Dublin, told CN. The project took three months to implement. The Accident Comp Corp (NZ), Principal Financial Grp (US) and Canadian Manitoba Public Insurance held best-practice sessions.

Credit rating agencies regulation lifts

ASIC today says it will remove an exemption that allows issuers of investment products to cite credit ratings without credit rating agencies' consent. From Jan 1, 2010, credit rating agencies will be required to hold Aust Financial Services licences. Issuers [must](#) ensure agencies have consented to ratings being included in any fundraising or takeover documents.

Education service provider awarded

ANZIIF was named education service provider of the year at the 13th Asia Insurance Industry Awards presentation last Mon. The award recognised its response to the Asia Pacific region's industry needs and growth. It was ANZIIF's 6th win. More than 500 snr execs and officials from the insurance industry attended the awards in Singapore. A panel of 24 judges recognised ANZIIF's achievements, including in partnerships and by providing certified, tailored insurance education in China, South Korea, Vietnam, Thailand, Indonesia and Saudi Arabia. Singapore-based *Asia Insurance Review* and London-based *The Review Worldwide Reinsurance* magazines jointly organised the awards ([CN Asia 90](#)).

People

Brian Schwartz has been appointed as IAG dep chair. It is intended Schwartz will become IAG chair when **James Strong** retires on June 30, 2010 ... Insurance Council CEO **Kerrie Kelly** will leave on Jan 22, 2010. She will start in a newly appointed role as the Assoc of British Insurers dir-general from Feb 2010 ... The London Business Interruption Assoc (LBIA) has elected Aon's **Diane Jenkins** as dep pres. LBIA provides education in business interruption insurance for London's brokers, insurers, loss adjusters and lawyers ... Commercial and professional indemnity litigator **Dee Wood** has joined Bris firm Carter Newell Lawyers as an assoc. She was formerly an assoc with Minter Ellison ... AMP Capital Investors has appointed Hong Kong-based **Anthony Fasso** as MD intl. Fasso, currently CEO of Axa Rosenberg Asia Pacific and Axa Investment Mgrs Asia Pacific, will replace **Michael Clarke**, who becomes AMP Grp's strategic adviser on Asia from early next year ... Lumley Insurance has promoted national motors risk service mgr **Rob O'Shea** to NSW motor mgr and **Frank Malvaso**, former Vic motor underwriting mgr, to Vic motor mgr.

Axa Asia Pacific rejects AMP bid

AMP Ltd says it considers an acquisition bid rejected by its target, Axa Asia Pacific Holdings (AAPH), had been "fair and compelling". On Mon, AAPH rebuffed a plan that would have seen its operations divided between its French-based parent, Axa Grp, and AMP. Under the proposal, AMP would have bought AAPH's operations for \$12bn in shares and cash with the aim of selling AAPH's Asian business to Axa's holding company, Axa SA, for \$7.7bn. If successful, AMP would have retained AAPH's Aust and NZ operations for a net \$4bn outlay, based on current share prices. AAPH [advised](#) the ASX its independent dirs' ctee rejected the AMP offer. They said it had not reflected the company's true value, especially current and prospective earnings from growing Asian markets. AMP chair Peter Mason said the offer represented a 31% premium on AAPH's current share price of around \$4. An AMP spokesperson told CN: "We believe it was a very fair and compelling proposal. [AMP is] keen to discuss the merits of the proposal [with AAPH] but they have made their position known." She said she was unaware of any current plans to revive the bid.

NSW plans new BWI scheme

The NSW Govt should drop plans to take over the state's builders' warranty insurance (BWI) system and start implementing a scheme similar to that of the Qld Govt's Building Services Authority (BSA), says an industry grp agitating for reform. NSW Premier Nathan Rees has said the govt would establish its own BWI [arrangements](#) from July 2010. Rees said the move followed advice from the govt's Home Warranty Insurance Board that the previously announced withdrawal of BWI providers Lumley and CGU was likely to be followed by "more insurers exiting the market" ([CN 1653](#), [1641](#), [1640](#)). He said the new premium-funded scheme would be underwritten and capitalised by the NSW Govt and managed by the Treasury dept through its Self-Insurance Corp. Tenders would be called for private providers for claims handling, premium collection and issuing project certificates. "We are taking action now because there is already evidence an increasing number of builders in NSW are unable to obtain [BWI] cover," Rees said. But a critic of BWI systems in NSW and Vic, the Builders' Collective of Aust (BCA), said Rees was proposing to continue a "last-resort" scheme that had been shown not to work. BCA pres Phil Dwyer told CN the only difference was the NSW Govt would profit from premium income while the scheme continued to give no real consumer protection in return. "There is no value in [the proposed arrangements] for consumers and certainly nothing for builders." Dwyer said a Sept report by the Vic Govt's Essential

Services Cmn (ESC) showed existing BWI arrangements were not working ([CN 1652](#)). "It showed 273 claims worth \$10m were paid over a six-year period. [In] exactly the same period, [Qld's] BSA paid out \$161m for 9,552 claims." Qld's "first-resort" scheme accepted 98% of BWI claims, compared with about 2% in NSW and Vic where homeowners had to spend money chasing comp through the courts. Dwyer said adopting a statutory scheme similar to BSA's was "the only practical way to go" for NSW and Vic.

BCA wants action not inquiries

Dwyer (*above*) said BWI was the subject of "yet another" inquiry, this time by a [ctee](#) of the Vic Parl't's Upper House. He said that inquiry, following the ESC report (*above*), would be one of many since the then-dominant BWI provider HIH Insurance's 2001 collapse ([CN 1640](#), [1636](#), [1585](#), [1570](#)). Yet the system had not been fixed. "Govts ought to be ashamed of themselves. This is the worst case of 'Yes Minister' I have ever come across," Dwyer said. BCA would continue to press its case for reform through public campaigns and its test case in the Vic Supreme Court ([CN 1655](#), [1645](#)).

Hannover sets profitable course

Lower catastrophe costs, growth in premiums and the Jan acquisition of part of ING's reinsurance business have helped Hannover Re return a €578m (A\$934.7m) profit for the nine months to Sept 2009, compared with a €143m (A\$231m) loss in the same period in 2008. The German-based reinsurer's [results](#) for Q1-3 showed gross written premium of €7.6bn (A\$12.3bn), up 25% on the €6.1bn (A\$9.8bn) for Q1-3 last year. Hannover partly attributed the rise to premium increases and its ING purchase ([CN 1617](#)). Fourteen catastrophes and natural disasters in 09's Q1-3 cost €198.2m (A\$320m), compared with €445m (A\$719m) in those losses for Q1-3, 2008. The 09 figures included €32.4m (A\$52.4m) for Vic's fatal Feb bushfires ([CN 1655](#), [1654](#), [1648](#), [1628](#)).

NIBA queries funding review

NIBA has questioned assumptions made by a Vic Govt [review](#) of the Vic fire services levy (FSL). NIBA CEO Noel Pettersen said a green paper [released](#) for the review outlined options for reform. "It states, however, that the govt's preferred option is a continuation of the existing system for funding fire services [via] a levy on insurance." NIBA said the paper wrongly suggested the FSL model ensured premium-based contributions to fire services reflected fire risks. Pettersen said insurers considered a range of risks, not only fire risks, when setting premiums. Premiums were then subject to the FSL and stamp duty plus GST ([CN 1650](#), [1644](#), [1642](#)).

Allianz insures a safe road passage

(From p1) Allianz Aust global corp & specialty Pacific regional marine underwriting mgr Ron Johnson said: "An off-the-shelf project cargo policy could never cover a move of such scale and complexity" so Allianz worked with the project's broker, Aon, to customise a policy to fit the risk. A turbine weighed 288 tonnes and a generator 317 tonnes. He said a significant amount of planning involved many highly skilled, heavy-lift engineers, surveyors and a heavy-lift team to safely complete the journey. Moving the power station's components would involve six major transfers over a few months. Travelling mainly at night, at a maximum of 30kph, the first trip took five days, Johnson said.

High Court: 'no relevant duty of care'

High Court Chief Justice Robert French and Justices Bill Gummow, Ken Hayne, Dyson Heydon and Susan Crennan have allowed two appeals and ordered the Tas Motor Accidents Insurance Board (MAIB) and a widow, Sandra Scott, to pay costs to CAL No 14, trading as Tandara Motor Inn (in Triabunna, Tas). Proprietor and licensee Michael Andrew Kirkpatrick did not owe to the deceased, Shane Scott, in the circumstances of the case, a relevant duty of care, they said. CJ French expressed no opinion on more general questions about the duty of care publicans owed their customers or other individuals. "The resolution of these questions in future will be likely to require consideration of the liquor licensing laws and the civil liability statutes" of the relevant state or territory, he said. Scott lived about 7km from the hotel. He had drunk seven or eight cans of bourbon and cola from 5:15pm to about 8:30pm when he left. He was about 700 metres from home when the motorcycle he was riding left the road and collided with a guardrail on a bridge. He suffered fatal injuries (his blood alcohol reading was 0.253g per 100ml of blood). His widow brought an action for damages. MAIB brought a separate action to recover payments it had made to her. Justices Bill Gummow and Ken Hayne had granted special leave to Tandara and Kirkpatrick after their counsel, Jeremy Ruskin, asked whether, on May 29, the Tas Supreme Full Court had erred because it had been Scott's friend who had asked for the bike to be put in a storeroom at the hotel, not Scott. Ruskin also suggested there had been an error because Scott might not have overtly threatened Kirkpatrick but had used very aggressive language when he asked for the motorbike (owned by his widow) back before leaving the hotel. (*HCA, CAL No 14 Pty v Motor*

Accidents Insurance Board; CAL No 14 Pty Ltd v Scott, 47/2009; 113/2009; TSCFC, 2/2009; TSC, 94/2007)

IAG delivers strong results

IAG's MD & CEO Michael Wilkins y'day told shareholders at its AGM that the insurer expected to deliver an insurance margin towards the upper end of its 9-11% guidance if operating conditions experienced in the Q1 continued. That confirmed his comments at the grp's market briefing on Oct 30 ([CN 1656](#)). IAG chair James Strong said the grp's revenue, in the year to June 30, measured by gross written premium, increased to \$7.8bn. The insurance margin increased from 5.4% to 7.1% and net profit after tax was \$181m, compared with a net loss of \$261m (2008). During the year IAG had introduced flood insurance and launched The Buzz online business ([CN 1651](#)), Wilkins told shareholders. He said IAG would aim to achieve its carbon neutral goal by 2012.

Investors can 'recoup' commissions

A new Aust rebate service, launched this week, is designed to help investors re-coup commissions payable from many financial products. "Most people were not aware they can get their commission[s] back," MyMoney Aust sales & marketing dir Graham Burnard told CN. MyMoney [offered](#) investors regular cash refunds from fees charged by fund mgrs and insurers, which were usually paid as "trailing and renewal" commissions to advisers and intermediaries, instead of investors. Burnard said premium and renewal commissions could be recovered from life insurance, income protection and trauma cover. Some policies had a 30% flat commission instead of up-front fees, part of which could be recovered. Master super trust renewal commissions could also be recovered.

Swiss Re posts 3rd quarter results

Swiss Re reported a net income of CHF334m (\$A356m) for the third quarter of 09, compared to a loss of CHF304m (\$A325m) in the same period of the previous year, Swiss Re CEO Stefan Lippe said. Property & casualty and life & health net income [increased](#) compared to the prior year period. Asset mgmt reported a return on investment of 1.6%, compared to 2.8% in the prior year period, reflecting the shift towards lower-risk and shorter duration assets, lower interest rates and the impact of market-to-market losses on corporate bond hedges ([CN 1643](#)).

Cover Note Editor: Robyn Gibson. **Contributing Editor:** Kate Tilley. **Journalist:** Lindsay Marshall. **Managing Editor:** Helen Jones.

Cover Note is published weekly by Thomson Reuters (Professional) Australia Limited and is available by subscription only.

Editorial Enquiries: PO Box 3502, Rozelle NSW 2039 phone 02 8587 7678 fax 02 8587 7876

Subscription Enquiries: phone 1300 304 197 fax 1300 304 198 email LTA.Service@thomsonreuters.com website www.thomsonreuters.com.au
©Thomson Reuters (Professional) Australia Limited (ABN 64 058 914 668). ISSN 0312-6757 Printed by On Demand Pty Ltd, Southbank Melbourne Vic. **Product Code:** 134001657

Copyright. Reproduction prohibited. Private and confidential information for subscribers only.