



*Latest
newsletter*

October 2011 Newsletter

Fire Service Levies

Fire Service Levies, (FSL), are collected by insurers on behalf of the Government at a set rate based on the policy sum insured. Whilst the charge also applies to vehicle insurance, (a flat rate of \$6.08 on a car or light vehicle with a rate of .076% on heavy vehicles), principal earnings are as a result of the impost being applied to policies covering assets, (Material Damage), insurance. Whilst this includes houses that attract a flat rate per house of \$76.00, the levy on commercial assets, both buildings and contents attracts the highest charge.



As an example, a policy with a sum insured of \$1,000,000 attracts a levy of \$760.00 plus GST, thus it is readily obvious that FSL can be a major proportion of the total premium.

Obtaining a “replacement valuation” will enable levies to be charged on the designated indemnity value only, but in the absence of such, or a certificate declaring the estimated indemnity figure, levies must be charged on the full sum insured.

Government have recently expressed concern that some insured’s are minimising their FSL liability through the use of global programmes or policies that offer what is known as a “first loss” indemnity. Thus a company with several sites can arrange a policy with a sum insured that may protect the major site, thus paying levies only on the maximum expected loss at that particular site.

This is patently unfair as such arrangements pass the major costs to those insured’s who have only one site or who prudently elect to fully insure all assets. With such levies likely to come under more scrutiny as insurance costs increase, it is hoped that Government will put some measures in place to more equitably spread the costs of fire service levies which largely fund the New Zealand Fire Service.

The Need to Comply with Policy Conditions

Virtually every piece of documentation leaving our office has the words, “For full details of cover please refer to the policy wording”. Our documentation also refers to the “Duty of Disclosure” which says that if any change occurs that may materially vary any of the facts present at the commencement of the policy that the policy holder is required to immediately notify of such fact.



There have been a number of recent cases including one highlighted on the television “Fair Go” programme, where a young couple were denied cover by their insurer after their rental property burnt down. The house in question had been untenanted for some time, the grass allowed to grow and it was obvious that the property was unoccupied. It should be noted that most policies state that if a property has been unoccupied for a period exceeding 60 days that the insurer be advised of the situation. In this unfortunate



The Need to Comply with Policy Conditions (cont.)

case the property had been unoccupied for a lengthy period of time and in the absence of the company not being notified, the insurer was within their rights in declining the claim. (Note – we understand that subsequently, no doubt as a result of the “Fair Go” publicity, a confidential settlement has been made with the property owners).

This however leads on to commercial risks, many which due to the current economic climate, are vacant and have been so for some time. Indeed we have one risk for a client where the property has been vacant for over two years. Whilst in this case the facts have been disclosed to insurers, and they have made their own appraisal of the risk, we believe there are a number of properties insured in New Zealand that are vacant, and that fact is not known to their insurer. In such case in the event of a loss, the insurer will be well within their rights to decline a claim.

We would suggest it is in the interests of all parties that if you have a vacant property, that this is made known to your insurer so that they can re-appraise their estimation of the increased risk that flows from insuring a vacant building.

Contractors Risks Policies – Existing Structures

Often when we are arranging a contractor’s cover for building renovations, particularly when there are structural alterations being made, we arrange cover to extend to “existing structures”. Clients often ask us why this is necessary, and are often not convinced of the need to arrange such cover.



Essentially, assuming that the building, (let us for example say this is a simple home extension), will be insured, and a separate contractor’s cover arranged for the actual extension. The “shortfall” or gap arises in a situation where damage is caused to the existing home structure by the builder. A claim is made under the house policy which responds, but the house insurer then pursues subrogation against the contractor to cover the cost of the claim.

The problem arises when the contractor refutes liability saying that under the building contract they have agreed to be treated as one insured entity. Providing cover for existing structures overcomes this potential issue.

All situations may differ to some extent dependant on the scope of works being undertaken and the contract agreement; however a good “rule of thumb” is to have one insurer cover the existing structures, contract works and the current and on-going annual covers.

Another Insurance Quotation from Winston Churchill

Compulsory third party motor insurance is again a topical subject, but compulsory insurance is not new as suggested by Winston Churchill in March 1943, Quote...
”National compulsory insurance for all purposes from the cradle to the grave...”

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