

Veracity

For the commercial insurance industry

Contents

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|---|---|---------------------------------|---|
| New-look team and new-look Veracity | 1 | National harmonisation for OH&S | 5 |
| State of play – the GFC and the commercial claims climate | 3 | Back to work and back to life | 6 |
| Hardening market – fact or fiction? | 4 | The GFC and professional risk | 8 |

Anthony Day CEO Commercial Insurance

New-look team and new-look Veracity

Having been in the role of Chief Executive Officer Commercial Insurance (CI) for nearly two months, I must say that I am looking forward to the opportunities that lie in store for our business and our partners. I have spent a substantial amount of time visiting CI offices across Australia, and meeting with people from all over our business.



also met with several intermediaries over that time and am pleased with the support and encouragement we have received in the past – and which I hope will continue in the future.

In November I announced a new Commercial Insurance structure and leadership team. One of the key reasons for these changes was to further clarify our core general insurance functions of portfolio and underwriting, distribution and claims. These changes are a result of changing market conditions and an increased focus on the needs of our intermediaries and external stakeholders that necessitated the streamlining of our business.

Another change we have made is to our new-look Veracity publication.

I've listened and I've learned, and most importantly I have been encouraged by the commitment and passion I have seen from everyone within the CI team. I have

Anthony Day

CEO Commercial Insurance

Darren O'Connell

EGM Commercial Portfolio and Underwriting Management

Neil Singleton

EGM Statutory Portfolio and Underwriting Management

Gerard McDermott

EGM Direct Distribution, Administration and Servicing

Andrew Mair

EGM Intermediated Distribution

Paul Smeaton

EGM Commercial Claims

Vacant

EGM Statutory Claims

Matt Pearson

EGM CI CFO

New-look team and new-look Veracity cont.

Veracity is another way that we can communicate with our intermediaries, and improve customer value propositions through shared best practice, and it is a way to optimise our complementary brands, channels and products.

Our experts will give you insights into what is going on in relevant insurance markets and keep you up-to-date with hot topics and issues. We'll also cover the changes in our constantly evolving industry that may impact on your business and that of your clients.

These changes are all about making it easy for our brokers to access our people, navigate our business and develop a clear understanding of who has accountability for what. We have worked on this over the last 12 months and pleasingly, based on your feedback, are confident we have the right strategies and activities in place to improve even more.

Below are the new Executive General Managers (EGMs) for the Commercial Insurance business:

1. Commercial Portfolio and Underwriting Management – Darren O'Connell

2. Statutory Portfolio and Underwriting Management – Neil Singleton

Separating our portfolio management into commercial and statutory will support a clearer focus on market pricing and risk selection.

3. Intermediated Distribution – Andrew Mair
4. Direct Distribution, Administration and Servicing – Gerard McDermott

Distribution remains separated into intermediated and direct to ensure a clearer focus on the relevant distribution channels.

5. Commercial Claims – Paul Smeaton
6. Statutory Claims – A recruitment process is underway for the EGM

Aligning our claims teams in the same way in which we align our portfolios will remove inconsistencies, consolidate our systems and simplify our claims management processes.

We are a major insurer in the Australian market and we are here because we

continually refine our business to deliver on our promises to our brokers, and make sure that we provide products that you and your clients want.

We are in a position to further accelerate our performance throughout 2010 and look forward to taking you along with us on the journey!

So if you would like to tell us what you think of the new-look Veracity, or there is something you want to hear about, or even comments you wish to make, please do not hesitate to contact Broker_Communications@vero.com.au. We appreciate and value all feedback!

All the best for the festive season and for a prosperous New Year.

Enjoy!

Our top business priorities for next year are:

- Right customers, right risk, right price
- Simplification of processes across our business, and
- Greater focus on our intermediaries.

Claims

From Paul Smeaton

EGM Commercial Claims



How we manage claims is key for our ability to maintain good relationships with our customers – in the good times as well as the bad.

Having a professional claims service, easy lodgement options and efficient claim repairs or payment will go a long way in strengthening and sustaining those relationships.

This year Vero has reengineered the claims process with the implementation of new systems and processes to make the customer experience a good

and satisfying one. We are redefining claims service by empowering our claims professionals with the knowledge and skills to consistently deliver and effectively communicate with customers. Over ninety per cent of customer calls are now answered within sixty seconds and we have seen a twenty per cent average increase of monthly finalisations in Commercial Motor and Property claims.

We understand that regardless of the economic climate, an insurer needs to work with brokers to excel in their claims service if they want to stand out in the market. We're making it easier for brokers to work with us so that we can achieve the best possible outcomes for our shared client interests.

State of play

How the global financial crisis has impacted the commercial claims environment and how brokers and insurers can change the game.

The term 'perfect storm' is used a lot when it comes to the claims environment of the past 18 months. First, a series of unprecedented natural perils including floods, storms and bushfires. Second, a once-in-a-lifetime global economic crisis.

Unfortunately, these events have not only resulted in an increase in commercial claims, but have impacted on the levels and severity of both underinsurance and fraudulent claims.

The weather events throughout 2009 have demonstrated the extent of underinsurance in Australian businesses, with the average level of underinsurance estimated at a startling 48 per cent.

Watch this space.

Vero's "Claims Online" system will be piloted in early 2010 and will give brokers access to view the status of a claim online. This is yet another way Vero is making it easier to do business with us.

Reengineering the Vero claims process:

- Guidewire Claims System – manages the claims process and workflow in a more streamlined and efficient way.
- Intelligent Call Routing – making lodgement easier by connecting our customers to the right person for their specific claim.
- Event Response Team – effectively manages and controls high volumes of claims during catastrophic events.
- A methodically governed supply and repair model – enables efficient, simple and cost-effective settlement across all claim complexities.

Some of the typical explanations for underinsurance include:

- The sum insured has not been updated for many years
- In determining the sum insured, no allowance has been made for common property such as stormwater drains, water connections, electricity connections, external paving, landscaping, water tanks and fencing (which may be extra benefits of the insurance policy as outlined in the applicable PDS)
- Additional costs (associated with the damage as outlined in the applicable PDS) have not been included in the sum insured – for example, removal of debris or hazardous waste, professional and council fees, GST, upgrades to fire systems and mechanical ventilation, and
- The increased costs of building materials, for example steel, copper and timber, has not been factored in to the sum insured.

Following these catastrophic weather events, the response by the insurance industry has been swift, with customer response teams expanded to deal with the increased claim volumes and assessors being deployed to affected areas as soon as was possible. The insurance industry continues to play a role in educating customers of the importance of having accurate sums

insured. This can help prevent the shock and disappointment of underinsurance should the unfortunate situation arise where customers need to lodge a claim. Clients should be encouraged to review their sums insured yearly and be reminded to factor in any changes to their business, such as renovations, new equipment and growth in profit.

In difficult economic times, such as the global financial crisis, we see an increase in fraudulent claims in the small business sector. Across the board there has been an increase in declined claims due to an increase of fraudulent claims:

- Commercial Property fires – up 43%
- Domestic home fires – up 24%
- Commercial Property theft – up 31%
- Staged motor accidents – up 40%

This increase has prompted Vero to look at smarter ways of investigating suspected cases of customer fraud and dishonesty, and requires ongoing vigilance from both brokers and insurers.

To comment [click here](#)

"The weather events throughout 2009 have demonstrated the extent of underinsurance in Australian businesses, with the average level of underinsurance estimated at a startling 48 per cent."

Intermediated Distribution

From Andrew Mair

EGM Intermediated Distribution



“I would like to take this opportunity to thank you for your support over the last 12 months.

At Vero, we will continue to build a business focused on helping you be successful and we will continue delivering on our ‘Expect more’ commitment to you in 2010. All of us here at Vero would like to wish you and your families all the very best over the Christmas and New Year period.”

Hardening market – fact or fiction?

Is a hardening commercial insurance market a reality? Why are we hearing so much discussion to the contrary?

We have all seen a substantial amount of commentary in the media debating whether the insurance market is hardening from a pricing perspective, or not.

Most of the major insurers insist they are seeking and securing premium

increases, yet all the while there seems to be an equal amount of industry discussion to the contrary. So what is happening and what might be contributing to this inconsistent view? Can both sides be right?

Since 2001 the regulators and the insurance companies have increased their focus, and scrutiny, to ensure that we have all learned from the lessons of the past. Insurers have responded positively to community, shareholder and regulator expectations to be more disciplined in all aspects of their operations – including pricing and risk selection.

Our industry has demonstrated incredible resilience over the past 12 months or so, with many internal and external challenges having been set, and overcome. The Global Financial Crisis, the material drop in investment income, as well as the weather-related claims activity in the first part of the year were as big a test as any industry was given. While the threat has not passed completely, it has certainly eased. Our industry compares very favourably to our overseas peers in terms of its ability to cope with the type of macro shocks that occurred over the last 12 months.

This should give not only insurance companies, but brokers and their clients a sense of confidence that we will continue to be there when we are needed the most – and this is usually when a claim needs to be made.

Reinsurance costs, availability of capacity, competition and investment income all play a role in the pricing story. At an industry level, it would seem all except investment income, have increased in the last 12 months or so. When an insurance company talks about securing average price increases of seven per cent it doesn’t necessarily mean all premiums have gone up by that amount.

There will be some risks that are set with higher increases, as well as others which expect or receive a smaller increase, if any.

Generally there is also a lag between recognising that a pricing issue exists and the implementation of the remedial pricing activity that is required at a product or portfolio level. This is just one contributing factor to inconsistency at an account-specific level over a period of time – especially until a particular change works its way through the system. This issue can be compounded when there is a high level of availability of capacity, as there is presently.

Time horizons also play a role in the generation of different experiences within the same marketplace. Insurers make changes with a 12 – 18 month view in mind while the market has a tendency to deal “in the moment” or short-term at best. It is these differences in perspective and timeframes that can lead to differing points of view on what is or isn’t happening in the marketplace.

At the risk of stating the obvious, different insurers also have different business models and cost bases. The various portfolio mixes have an impact on each insurer’s capital and reinsurance requirements and costs; as well as release philosophies, and distribution and acquisition costs. And all of these factors can contribute to different market experiences for all market participants.

Striking the balance between consistency and sustainability over the insurance cycle continues to present its challenges to insurers. Competitive marketplaces, shareholder expectations, broker and client expectations all play a role in finding this balance. From an insured’s or broker’s perspective, large premium fluctuations at the account level do little to assist the industry’s or the organisation’s credibility.

But similarly, the inability of an insurance company to meet its claims obligations at some time in the future could also reflect poorly on both organisation and industry.

Most local insurers would argue that they have improved the sophistication of their approach to pricing over the last

Hardening market – fact or fiction? cont.

few years. There is less reliance on the application of the broad brush across all premiums and increases of X per cent regardless of exposure or performance. Improved data integrity and quality combined with more sophisticated modelling have meant insurers are better able to focus their attention on specific risks, exposures and geographies within portfolios or lines of business. Globally this seems to be true as well. A major event in the Northern Hemisphere doesn't necessarily impact the local market in the same way it may have in the past.

The above is just an example of where different perspectives of the same market can be generated, and where both are equally correct. We, as insurers, usually take a portfolio

view, whereas brokers tend to view the market through the account-specific lens. This may see the pricing inconsistencies continue from a broker's perspective, whereas the underlying trend is that pricing is firming.

This is typical of an insurance cycle where there is a definitive hardening in some classes, whereas other classes remain stable. In the commercial insurance market we expect that the hardest hit portfolios will continue to be the management liability lines.

Ongoing adjustments will be made in response to portfolio performance as companies continue to meet changing demands and expectations from all stakeholders.

To comment [click here](#)

“Most local insurers would argue that they have improved the sophistication of their approach to pricing over the last few years. There is less reliance on the application of the broad brush across all premiums and increases of X per cent regardless of exposure or performance.”

Statutory Underwriting

From Neil Singleton

EGM Statutory Portfolio and Underwriting Management



Workplace safety is a major issue for employers and it's a top priority at GIO Workers Compensation.

By helping employers to achieve better risk management and safety outcomes, we believe this benefits not only their employees, but the wider community. This underpins our efforts to influence positive outcomes in the national harmonisation of Occupational Health and Safety (OHS) legislation.

While debate around a nationally harmonised OHS regime continues,

there is still a long way to go before a clear resolution and consensus is reached and we believe it must remain a priority for all levels of Government in Australia. We hope to see an outcome which provides economic and administrative benefits for employers and, most importantly, optimises workplace safety.

National harmonisation

The move towards a national approach for Occupational Health and Safety

The issue of national harmonisation of Occupational Health and Safety (OHS) legislation is gathering momentum, with the Commonwealth Government releasing draft model legislation.

Since 1956 Australian employers have had a legal duty of care to provide their employees with a safe workplace but currently all six State, the two Territory and the Commonwealth Governments are responsible for making and enforcing their own respective OHS laws. Although these draw on a similar approach for regulating workplaces, there are some significant differences in the application and detail of the laws between jurisdictions.

In July 2008, the Council of Australian Governments (COAG) formally committed to the harmonisation of OHS legislation by signing an Intergovernmental Agreement (IGA) for Regulatory and Operational Reform in Occupational Health and Safety. The IGA committed each Government to work cooperatively to harmonise OHS legislation through the adoption and implementation of model OHS legislation by the end of 2011.

National harmonisation cont.

Most State Governments are committed to harmonised OHS laws, although Queensland and New South Wales are strongly opposed to any reduction of workers' rights and protections from their current system. Western Australia is opposed to any measures that increase union power within its current system.

The Commonwealth Government and business industry groups (namely ACCI and AiGroup) are in support of the changes to nationally harmonise OHS legislation while the Federal Opposition and a majority of trade unions are united in their opposition.

Despite the divergence of opinion among stakeholders on the exact content, composition and structure of a nationally harmonised OHS legislative regime, it is hard to dispute that there is significant economic benefit for Australian businesses and the broader economy from uniform legislation.

The majority of employers and employees operate within a single State or Territory and therefore, deal with only one OHS regime and one workers compensation scheme. Multi-State employers, who employ

over a quarter of Australia's workforce, face costs associated with dealing with the varying requirements in different jurisdictions.

The cost of compliance and the structural inefficiency for multi-jurisdictional employers is significant and needs to be addressed in the interests of productivity and economic efficiency. It is estimated that the cost of compliance for multi-jurisdictional employers with the various separate OHS and workers compensation regimes is between five and ten per cent of workers compensation premium costs.

Further, the need to focus on complying with differences across jurisdictions is seen as a distraction from developing a company-wide culture of preventing injury and illness. In 2004, it was reported that the total economic cost of workplace accidents to workers, employers and the community was estimated to be in excess of \$31 billion annually, or some 4.3 per cent of Gross Domestic Product.

GIO Workers Compensation has supported the development of an industry response through the Insurance Council of Australia and has prepared an

individual submission that highlights very specific issues within the debate.

We would expect that any adopted legislation would lift national standards of OHS to 'best practice'. The economic benefits would be realised in the simplification of administration for multi-jurisdiction businesses, as well as reduced risk profiles and consequent flow-on effects to insurance premiums.

To comment [click here](#)

"In 2004, it was reported that the total economic cost of workplace accidents to workers, employers and the community was estimated to be in excess of \$31 billion annually, or some 4.3 per cent of Gross Domestic Product."

Workers Compensation Claims

Back to work and back to life

Achieving better outcomes for your injured worker and your business

We all know that workers compensation is a compulsory cost for the majority of Australian businesses.

We also know that everybody's wish when it comes to workplace injuries is to have as few as possible.

If you're an employer, not only do you require a current workers compensation insurance policy that covers your employees, but you need to develop an effective return to work (RTW) program for injured workers.

The RTW process is vital in achieving the best outcome for all parties involved

in a workers compensation claim including the employer, the injured worker, and the insurer.

For an injured worker, the most important thing about returning to work is returning to their pre-injury lifestyle and getting on with their normal routine. In GIO's experience, helping an injured worker return to work also helps them to stay motivated and positive - and helps minimise any emotional impact that the injury may have caused.

It also means that a business can return to its normal resources and levels of staffing sooner, which might be particularly important for employers with smaller teams and ongoing commitments to customers and suppliers.

You are an employer for workers compensation purposes if your business is:

- a Pty Ltd company with workers or working directors
 - a partnership, or
 - a sole trader
- which employs full-time, part-time or casual workers.**

Back to work and back to life cont.

An effective RTW program improves communication and clarifies the roles and responsibilities of each individual involved in helping the injured worker to return to work and stay at work.

If an injured worker cannot return to their normal role straight away, suitable duties should be developed so that the worker's rehabilitation can continue while they return to work. When designing suitable duties for an injured worker, employers should consider including modified tasks, reduced working hours, increasing rest breaks, task rotations, and identifying whether alternative equipment or tools can be used.

The RTW program must be developed in consultation with the injured worker, any industrial union that represents

them and their medical practitioner.

A current initiative of GIO Workers Compensation is to work with brokers and employers to collect lists of suitable duties for injured workers to assist in the return to work process. Suitable duties lists will provide the appropriate tools for GIO Case Officers to improve RTW outcomes, reduce duration rates, and potentially reduce premium costs.

Claims professionals within GIO's Workers Compensation team all work with a common theme of "Back to work and back to life". This concept helps claims staff to understand the vital role they can play in helping injured workers not only return to work, but also return to their pre-injury lifestyle.

"In GIO's experience, helping an injured worker to return to work also helps them to stay motivated and positive - and it helps to minimise any emotional impact that the injury may have caused."

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In our experience, employers who report injuries quickly and maintain a suitable duties library will experience better overall return to work ratios. Employers should ask themselves two questions:

1. Do I have the correct system in place to report injuries as soon as they occur?

2. Do I have a standard Return to Work program that all line managers have committed to so that injured workers can return to work as efficiently as possible?

Answering yes to these two questions gives employers greater chance of

reducing their premium and decreasing the number of days of lost productivity due to workers compensation claims - not to mention the benefits in supporting injured workers. Of course, when it comes to workplace injuries, prevention is always better than a cure.

Commercial Underwriting

From Darren O'Connell

EGM Commercial Portfolio and Underwriting Management



The professional and financial services industry in Australia has experienced large-scale change in the past 18 months and the insurance implications are still rippling through.

Other areas of commercial insurance may also continue to experience the effects of the economic downturn for some time to come. For example, project construction is still down, despite the Federal Government's stimulus package. Further, we haven't seen much movement in infrastructure development as yet, and the market remains fairly dormant.

Despite the recent interest rate rises, we are still well short of long-term, risk free rates. As a result, long tail classes of commercial insurance continue to be affected by these lower return levels.

Reinsurance rates were also significantly impacted this year, with price increases

for the 2009/10 catastrophe programs. At this stage we don't know what the impact will be in 2010/11, particularly as we are yet to experience the summer storm season. However, a benign wind season in North America will assist in reducing capacity and pricing pressures.

Through the doom and gloom of the economic downturn however, many clients continue to look to their brokers to help keep their businesses on track. There remains a great opportunity for brokers who can provide clients with the risk solutions they need to see them through the downturn and beyond.

Corporate consequences

Dealing with the global financial crisis and managing professional risk.

Corporate Australia has been shaken by both the Global Financial Crisis (GFC) and the economic downturn and the aftershocks are still being felt.

First there was the direct and obvious impact of the GFC through mortgage derivatives failures, other investment crashes and the sudden collapse of over-stretched balance sheets.

This resulted in a surge of claims against financial institutions, Directors' and Officers' (D&O) claims on directors of failed companies, and professional indemnity claims against their advisors.

The broader economic downturn and falling market had two distinct impacts. It revealed a number of flawed business models that rely on unsustainable assumptions. It also brought about a loss of confidence in the market as conventional investments went through a period of under-performance.

What we are seeing now are the secondary consequences and resultant economic effects. The projected revenue of professional services firms is down on average and firms have moved to de-risk and better control their portfolios.

We are still seeing an increased size and frequency of D&O and professional indemnity claims (particularly for financial planners and accountants) with potential for these to increase further. This, along with sustained activity in class actions, is placing upwards pressure on premiums.

Large public D&O insurance continues to be priced with discounts despite consensus that it is underperforming. The reinsurance appetite for certain segments has reduced, which will lead to a tightening of supply to these segments over time.

The uncertainty now is whether any additional issues as yet unidentified exist and what impact they will have on companies down the track.

The economic recovery since March presents a rollercoaster style outlook

that is just as likely to fall sharply as it is to flatten or continue to rise. This increases the responsibility of directors to manage and disclose any underlying issues to ensure they are best placed in the event of a future fall.

Clients (particularly directors and officers) should be encouraged by brokers and insurers alike to review their existing assumptions on outstanding GFC exposures and ensure they are updated and reviewed objectively. Some clients may seek to purchase larger programs if they see potential for class actions, which usually take longer to settle and attract increased legal costs.

It is expected that rates will continue to rise, and it may become even harder to place risks with exposed activity.

In the current climate, we could even expect to see a consolidation of professional segments (for example, mortgage brokers and financial planners) which might demand alternative insurance solutions.

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Sydney: The Waterview Convention Centre, Sydney Olympic Park, Tuesday 16 February 2010

Melbourne: The Crowne Promenade, Melbourne, Thursday 25 February 2010

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