



# RM Insight<sup>®</sup>

## Property Insurance – A Broker's Guide to Understanding Exposures

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Date written: April 2021. V11049 12/04/21 B

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Insurance with insight



# Understand external threats and how each could affect a property.

This is one in a four part series to understand COPE (construction, occupancy, protection, exposures). Historically, property underwriting has focused on COPE as the core principal of risk assessment.





## What are exposures?

These relate to sources of external risk that may pose threats to the insured's premises. Sources may include the physical presence of a building or structure in close proximity and / or exposure to natural hazards, i.e. perils such as flood, bush fire, damaging winds, hail, etc. The insured may share the premises with a third party. In that case the third party presents an exposure to the insured.

**Note:** This article covers external risks to the insured and not those posed by high risk aspects of the occupancy.

## Consequences of exposure

In general terms, the exposure may result in direct material damage along with consequent business interruption. The insured's premise may in fact only sustain smoke and water damage from firefighting operations on neighbouring properties with good recovery opportunities. However, in this situation, the insured's may be unable to access to their premises, which would disrupt operations.

## Exposures and what to consider

For example:

- third party property close to the insured;
- smoke / water from firefighting on nearby properties;
- lightning;
- windstorm;
- hail;
- flood;
- earthquake;
- bushfire;
- aircraft;
- vehicles;
- vandalism and malicious damage; and
- riot and civil commotion.

## Third party property close to the insured

Includes buildings, yard storage and structures. Underwriters look at occupancy, construction and height of the building, separation distance (also referred to as detachment) and fire protection (e.g. fire sprinklers). Fire separation, such as fire rated walls between the insured's premise and any third party, is also important to note.

For example: 'An adjacent third party non-sprinkler protected property is a major distribution centre for plastic bottles. The bottles are palletised and in high bay storage (6 m high) within a metal clad building, some 5 m from the insured's premise'. This clearly presents a high exposure. A brick office building detached from the insured's premise by 30m would typically be of minimal or no exposure to the insured's premise.

Also, when an underwriter reviews the distance between opposing properties, they may refer to it as 'clear and open' separation or detachment. Clear and open means that there are no other incidental structures or yard storage between the insured's building and the third party building that could readily spread a fire from one premise to the other. For example, yard storage of tyres between buildings may easily spread the fire, even though there may be adequate detachment between the buildings.



## Smoke / water from firefighting in nearby properties

As noted above, the fire brigade may be fighting a fire on a nearby third party property and throwing a significant amount of water on it. Water may also be thrown upon the insured's property attempting to protect it. The insured may suffer smoke and water damage to the building and contents, even though there was no direct fire damage. Also, the authorities may close down the area for safety and emergency access reasons thus, the insured may be denied access to their site for a period of time.

## Lightning

Lightning is a natural peril exposures where the underwriter would look at the frequency and severity. Insurance companies have knowledge of these perils from their own experience and draw further information from a variety of resources such as the Bureau of Meteorology, Risk Identifier tools, ICA Dataglobe, etc. Re-insurers have worldwide perils data such as Nathan and Catnet. For lightning, the underwriter would look at the level of risk posed by the location (i.e. high frequency of lightning strikes), susceptibility of the premise being a conductor such as metal construction and high structures such as communication towers, etc. In turn, they would consider the protection such as lightning rods strategically placed across the site. These would accept a lightning strike and provide a safe path to earth, rather than a wayward current throughout a building causing fire

## Windstorm

High winds such as cyclones. Many insurance companies view locations above the 26th Parallel and within 200 km of a coastline with trepidation. Typically, an underwriter would again consider the susceptibility (other than the location) of the premises to sustain damage from high winds. Specifically, this refers to the construction and includes the type of materials used and how they withstand wind forces. Wall and roof cladding are examples of the typical exposure with a consequence of the cladding detaching from the structure and flying off into the sunset. Modern building codes address the stability of construction in known cyclone regions. Also, yard or outside storage is at risk and should be minimal or tied down.

## Hail

Construction materials are the main concern here. Specifically, the roof and wall cladding. Hail will dent metal sheeting, punch through fibre cement and fibreglass sheeting (e.g. skylights). The presence of asbestos sheeting should also be considered as this will increase the removal of debris values. Roof drainage systems should be specifically designed to cope with hail blocking downpipes and provide for clear drainage.

## Flood

Underwriters will consider any protection or risk mitigation such as levees surrounding the property, raised structures, basements and drainage pumps, plant and equipment raised up on concrete plinths, stock placed on pallets and in racks.



## Earthquake

Again, underwriters will be looking at the construction and high bay storage racks in detail and if these are capable of withstanding earthquake induced movement. Solid structures such as brick walls do not have a tolerance for movement for example. For information: Australia's largest recorded earthquake was in 1941 at Meeberrie in Western Australia with an estimated magnitude of 7.2 but it occurred in a remote, mostly unpopulated area. A magnitude 6.8 earthquake at Meckering in 1968 caused heavy damage to buildings and was felt over most of southern Western Australia. Earthquakes of magnitude 4.0 or more are quite common in Western Australia with one occurring about every five years in the Meckering region. The 1989 Newcastle Earthquake is the most well-known earthquake in recent times in Australia.

## Bushfire

Not much more can be said about Australia's susceptibility to bushfires. Underwriters look at construction and its ease of catching fire (e.g. timber wall cladding) and the afforded protection mechanisms such as non-combustible construction. Risk control programs such as cleaning gutters of leaves, removing combustible waste and goods in the yard, the provision of external sprinkler systems (e.g. over the roof), hose reels and hydrants, available water drawing facilities such as swimming pools, dams, etc. are also important. Remember that embers may travel large distances.

## Aircraft

Is the facility under a known flight path or in close proximity to an aerodrome where holding patterns may exist?

## Vehicles

Consider the risk posed by vehicle movements on the premises. What protection is provided such as high gutters, bollards and a traffic management plan. Don't forget impact to elevated services (electrical cabling, water, gas) across the site from high loads. Are signs provided to show height restrictions, are sacrificial bars provided to show drivers that their loads are too high for the site? Again, is protection from external traffic provided, such as by high gutters and bollards and is the facility set-back from the road?

## Vandalism / malicious mischief

The location of the insured is a key factor in determining the exposure. Some localities are more prone to this risk than others. What means of averting such a risk are provided, which typically falls under the security realm. Note high fences, gate locking, external lighting, electronic security systems, out of hours security patrols, local and back to base alarms. Remember, the act could lead to arson.

## Riot / civil commotion

Part of the above exposure (vandalism/malicious mischief) and can also be related to internal risks. A big thing here is staff relations and the likelihood of an internal confrontation leading to a physical act such as arson for example.



# A word about 'Accumulation'

All insurance companies monitor accumulation within a portfolio typically by postcode and even down to property numbers and street addresses. When you consider the number of properties insured by an insurance company (especially in the home and contents space), there is a risk of multiple exposures to a single event such as a flood, bushfire, earthquake, hail and windstorm that may occur in a region or locality for example and many properties will suffer from a single event. Underwriters limit their cumulative exposure to catastrophic events.

# A word about 'Building Restrictions'

A forgotten exposure... If an insured suffers fire damage which results in a rebuild of the premises, there will be the typical rebuild submission to local council which would include plans and specifications. However, over the course of time there may have been a change to zoning which could prohibit the redevelopment of the premises on the site. Or, the council may impose a number of covenants on the redevelopment, which may include changes to building materials, an aesthetic change, lowering the building height, etc, all increasing the cost. At the end of the day, covenants may be too hard for the insured to comply with and relocation could be the only option.

## Resources

Bureau of Meteorology.  
Australian Government-Geoscience Australia.

### LMI RiskCoach

Internet based risk management  
and insurance resource.

For more guides like this, visit [vero.com.au/broker/rm-insights](https://vero.com.au/broker/rm-insights)

Or for more information on how our expert Risk Management team can help you,  
visit: [vero.com.au/risk-management](https://vero.com.au/risk-management) or contact us at [riskengineering@vero.com.au](mailto:riskengineering@vero.com.au)

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