

MSM Loss Management

**Specialists in
loss management
and quantum**

Summer 2004 - Issue 3



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MSM Newsletter

You can now be kept up to date with the latest MSM news, industry views and profiles from your Inbox.

MSM Newsletter

MSM email newsletter for clients and industry members covering:

MSM News:

Keeping you up to date with MSM's independent services and initiatives

Current Industry Issues:

Across the insurance, risk management, legal and construction industries

MSM training:

Details on MSM training programs and content

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A brief profile of an MSM consultant

RMIA Conference 2004 - Hobart

MSM was one of the sponsors of the inaugural RMIA (formerly ARIMA) conference in Hobart that has just completed (15-18 November, 2004).

The Hobart conference was one of the largest and most successful, with over 400 delegates attending. Key presenters included leading experts on risk management, security, counter-terrorism, and insurance claims and underwriting.



Thanks to all of you who supported MSM and visited our exhibitor's booth to have a chat. We hope we can assist you in 2005, in particular providing our independent claim preparation service.

NIBA Charity Ball

The divine 'Ms M'



For many years MSM has been a supporter of the Victorian NIBA Charity Ball and Guide Dogs Victoria.

The Victorian NIBA 2004 Charity Ball was held on Saturday 20 November at the Grand Hyatt Hotel in Melbourne. Part of MSM's sponsorship package included the right to naming a guide dog puppy. Thus a beautiful black Labrador puppy now bears the name **"Ms M"**.

Overall \$87,000 was raised on the night, which is enough to train 2 dogs plus assist with other services. Over 10 years the NIBA Ball has raised over three quarters of a million dollars for Guide Dogs Victoria meaning this has funded 21 guide dogs. It has been MSM's pleasure to assist in a small way such a worthwhile charity and we wish the divine **"Ms M"** luck in her training to become a fully fledged guide dog.

MSM TRAINING UPDATE

MSM Loss Management has continued to provide training programs for brokers demystifying business interruption.

Topics include setting sums insured, reading and interpreting financial statements and understanding the difference between accounting gross profit for insurance purposes, as well as dual basis payroll. Our experience has shown that 70% of BI policies do not respond adequately to provide full indemnity and that policy deficiencies are frequently due to lack of understanding of these business interruption related issues.

We have found that following our business interruption training sessions, questions have arisen about what cost/benefit analysis should be performed before involving independent business interruption claims preparers?

We believe the simple answer to this question comes from the good feedback we have received from brokers utilising the cover for this claims preparation cost under their client's insurance policy.

This has led to the best result being achieved for their client without added cost. Given that this claims preparation cost is predominantly covered under the business interruption section of the ISR policies (check this endorsement) then all business interruption claims (large or small) should involve an independent claims preparer to best represent the policy holder's interest.

For information on course locations and times, contact MSM on 1300 76 67 67.

CURRENT INDUSTRY ISSUES

► **Foreign Exchange (FX) Rates and your Insurance Program**

Whilst companies such as importers of goods purchased in United States Dollars are rubbing their hands together following the unrelenting rise in the Aussie Dollar they should possibly take time to reflect on the effect to their insurance program.

We are reminded of a claim we prepared on behalf of an Asian company where its local dollar fell sharply against the Greenback during the Maximum Indemnity Period. The company sold all of its products in US Dollars and was unhedged. The Gross Profit in local currency realised in the 12 months following the damage, surged to a point where the Sum Insured was hopelessly inadequate. The Average clause was then applied to the claim such that, had the company been publicly registered in Australia, the directors would have been forced to make an announcement to the ASX.

Since 30 June 2004 the Aussie has appreciated 15% against the Greenback. This means the Rate of Gross Profit percentage would look significantly different now to that used on your renewal. If your costs have a high US denominated currency component it would be worthwhile reviewing your sums insured calculation to determine if your cover is still adequate.

For example, consider a mail order company that imports its products from China. If it calculated that its Rate of Gross Profit (ROGP) was 35% and that its US dollar denominated costs were 70% of total variable costs derived from its budget using an FX rate of US65c, then based on current rates its ROGP is now 44%. Importantly, this means that the company's Gross Profit is potentially only 80% insured.

On the other hand, inventory valuation moves in the opposite direction given that the replacement cost in Australian Dollars will reduce. Food for thought.

MSM COMPLIANCE SERVICES

With the first six months of the FSRA behind us it is worthwhile to give feedback on the most common and serious problem we have encountered when helping brokers with their Licence Obligations.

► **Financial Requirements**

The major problem that ASIC identified as part of the first round of Surveillance visits conducted up to June 2004 was a failure by Licensees to adequately monitor their financial situation. Our experience is similar to the ASIC findings.

This has been further highlighted by the number of queries and problems we fielded as part of the annual audit sign off requirement at 30 September 2004.

ASIC have also recently released a 24 page document that provides guidance on which breaches must be reported to ASIC. One of the specific reporting requirements that ASIC considers falls under the definition of "significant" is a failure to adequately monitor cash flow.

To ensure you are meeting your obligations, here is a simple checklist:

- I have a 2004/05 Business Plan.
- I have a 2004/05 Budget showing income and expenses by month.
- I know which PS166 options I am using.
- I establish my cash position monthly and apply my budget to my current position to create a three month cash projection.
- I retain a copy of the monthly cash position calculation

If you fail any of the above you are possibly in breach of your financial obligations and ASIC have a clear expectation that you must report the breach to them.

The next significant FSRA challenge facing brokers will be to upgrade their systems and documentation to deal with Conflicts of Interest.

► **Managing Conflicts of Interest**

ASIC have recently released a Policy Statement (PS181) on a Licensees responsibility to manage any conflicts of interest in a formal and documented fashion. In summary, as from 1st January 2005 any conflicts identified must be managed through a process of control, avoidance or disclosure.

This will probably entail a Licensee undertaking the following steps.

1. Review PS181 and document the approach the business will take to meet the requirements.
2. Design and set up a Conflict of Interest register.
3. Update Compliance and Risk management systems and day to day operational procedures to ensure that such conflicts are controlled appropriately.
4. Update disclosure documents where relevant.
5. Alter business arrangements where it is decided the conflict should be avoided.

A practical example of a conflict of interest may involve a situation where a Licensee has entered a Profit Share arrangement with an insurer and is actively selecting clients to place or move away from the insurer with the intention of maximizing the profit share payable, without regard to the client's interests.

Another example of a conflict of interest may involve a broker attempting to reach or maintain a certain volume of business with an insurer to be eligible to participate in an insurer sponsored rewards program by moving client's policies.

MSM Compliance Services have already built the necessary tools into our free MSM Mission Control documentation system to ensure our clients have an updated system to meet their financial obligations. We have also incorporated all of the necessary changes required by PS181 into MSM Mission Control. For help and support of these issues or any other compliance or business management issues please contact **Ivan Handasyde** on 0419 524 280, (03) 9690 4377 or ivan.handasyde@msmlm.biz or **Doris Hsiao** on (02) 9249 6613, 0418 406 206 or dhsiao@msmbi.com.

MSM CONSULTANT PROFILE

Colin Chinner - Melbourne

Colin has enjoyed extensive experience with various insurance companies throughout Australia, New Zealand and South East Asia, involving State, National and Regional senior management roles. Throughout this time, he has maintained a strong link with claims issues, including major losses for property, business interruption and liability classes.



A change of career in 1992 saw Colin join GAB Robins, with responsibilities for both national and regional (South East Asia) issues. He has had extensive experience in natural disasters including cyclones, earthquakes, bushfires and floods. Colin continues to manage large losses, including major property, business interruption, financial, construction and a variety of liability losses. Assignments have been handled for a variety of clients including multi-national companies, small to medium enterprises and government bodies. He has provided expert evidence on a wide range of insurance matters over the years. He has provided expert evidence on a wide range of insurance matters over the years.

In 1999, Colin became one of the founding partners of Loss Management International (now part of MSM Loss Management), a firm dedicated to working for clients and/or their broker in providing a high level of technical expertise and customer service on both insured and uninsured losses. Colin also enjoys the consulting side involving both pre and post loss matters. Colin has a long relationship with insurance bodies, including, the Australian and New Zealand Insurance Institute, NIBA and ICA. He is the co-author of a text book on insurance, and a regular speaker on technical matters at industry conferences and seminars.

- ▶ **Telephone** 03 9690 4377
- ▶ **Facsimile** 03 9690 4677
- ▶ **Mobile** 0413 127 999
- ▶ **Email** colin.chinner@msmlm.biz

MSM CORPORATE PROFILE

MSM Loss Management (MSM) is Australia's premier provider of business interruption, litigation support, claims management and related support services.

Services include preparation of economic and consequential loss claims, business valuations, policy reviews business continuity planning. The practice has focused on business interruption, economic loss consulting, forensic accounting and litigation support as well as providing training and compliance services. The MSM team has gained technical and practical experience through years of involvement in thousands of claims and litigated matters, across a broad range of industries, including mining, construction, metals and energy, manufacturing and transport. MSM has a multi-disciplined, professional team which includes chartered accountants and CPAs with experience across a diverse range of industries and organisations.

► **Claim Services**

- Management, preparation, review and settlement of material damage, business interruption, advanced loss of profits, product liability and related claims requiring the establishment of quantum.
- Advice on business interruption cover including rights and obligations, policy response and a review of the adequacy of the sums insured.
- Timely advice, allowing informed decisions on critical issues such as recovery actions and options affecting the treatment of payroll.
- Claims management.
- Identification and quantification of economic losses.

► **Pre-Loss Consulting Services**

The pre-loss consulting services include:

- Reviewing the adequacy of declared values, limits, sub-limits and indemnity periods.
- Establishing pre-loss procedures.
- Business continuity planning.

► **Litigation Support**

- MSM undertakes assignments on behalf of major law firms, acts as expert witnesses, and provides expert opinion and advice in a broad range of matters across a variety of industries.

For more on MSM's services, visit our website at www.msmlm.biz

MSM LOSS MANAGEMENT CONTACTS

MELBOURNE

Colin Chinner

Email colin.chinner@msmlm.biz

Telephone 03 9690 4377

Facsimile 03 9690 4677

BRISBANE

Peter Rink

Email prink@msmlm.biz

Telephone 07 3368 3600

Facsimile 07 3368 3898

PERTH

Mark Davidson

Email mdavidson@msmlm.biz

Telephone 08 9486 7000

Facsimile 08 9486 7022

SYDNEY

Greg Sutton

Email gsutton@msmbi.com

Telephone 02 9249 6666

Facsimile 02 9249 6677

Priority Call 1300 76 67 67

MSM COMPLIANCE SERVICES

MELBOURNE

Ivan Handasyde

Email ivan.handasyde@msmlm.biz

Telephone 03 9690 4377

Facsimile 03 9690 4677

SYDNEY

Doris Hsiao

Email dhsiao@msmbi.com

Telephone 02 9249 6613

Facsimile 02 9249 6677

Correspondents in New Zealand, Asia, USA, UK and Europe

Expert advice on Business Interruption ▪ Claim Preparation ▪ Economic Loss ▪ Litigation Support Forensic Accounting ▪ Business Continuity Planning ▪ Compliance ▪ Third Party Administration ▪ Training and related areas to Insurance Brokers ▪ Risk Managers ▪ Solicitors ▪ Accountants and our respective clients.

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