

LAPP gains 50th member



The full name for LAPP is: 'New Zealand Local Authority Protection Programme Disaster Fund Trust Board'. You can see why we prefer the abbreviation!

LAPP is not owned by Civic; it is a charitable trust set up by Civic and administered by six local government trustees. Two of these are appointed by Civic, two by SOLGM and two by LGNZ. Civic is the administration manager for LAPP. LAPP has been operating since 1993, and is a risk financing tool for local authority infrastructure relating to water supply, sewerage and flood management.

LAPP has \$25.6 million of its own assets and through its reinsurance program 'rents' a further \$80 million. That gives LAPP members \$105.6 million of protection for its exposure to the 40% of its infrastructure damage that will not be met by Central Government in the case of a natural disaster. Add the central government contribution of 60%, and that is a total protection for infrastructure for LAPP members of \$264 million.

Some local authorities have sought to build up their own disaster funds, which is certainly better than doing nothing. However, if a local authority is unlucky enough to be hit by more than one disaster in a short space of time, as happened in the Bay of Plenty region, then it is likely to find itself severely under funded. Just as importantly, bear in mind that in any disaster there are many other things apart from infrastructure repairs that will require unbudgeted finance.

Members of LAPP do not have a problem with multiple events for two reasons. Firstly, there is a much bigger fund on which to draw on because their resources are pooled. Secondly, LAPP's reinsurance program automatically reinstates after a claim so it is still there in full for a second claim.

LAPP's members are shortly to be invited to participate in a risk-management benchmarking survey. The LAPP Board believes that LAPP's members will find this exercise very beneficial.

LGOnline – Civic now a shareholder

Beginning 1 July 2005, Civic now owns 25% of LGOnline. The other shareholders of LGOnline are SOLGM (25%), ALGIM (25%) and LGNZ (25%). Civic's appointed directors to LGOnline are Tim Sole and Elmar Gailitis.

LGOnline is mostly known by local authority staff for its management of the local government e-mailing lists for which there are over 5,000 subscribers. Allowing for multiple memberships, some 4,000 decision makers within local authorities are being assisted by this service. Typically in a month LGOnline is managing 700 postings over 84 different lists generating around 130,000 e-mails!

LGOnline is also responsible for 'What's New E-zine'; e-mailed once a week and very ably edited by Bob Vine. Less visible to most local authority members is the work that LGOnline's CEO Jim Higgins does in evaluating and promoting suitable software packages that councils may wish to employ.

The website for LGOnline is www.localgovt.co.nz. When it comes to local government matters, its search engine is amazing.

The LAPP Board is inviting non-members of LAPP to reconsider applying for membership. To encourage this, there is until 30 June 2006 a favourable basis for new members to join. Because LAPP contribution rates are based on assessed probabilities of a claim and the associated values of the assets exposed, LAPP membership is not just for the local authorities perceived to be at the greatest risk. Please contact Geoff Mercer on (04) 978 1251 if you would like more details on what the LAPP Board's offer is for new membership.

Here is one very good reason why those who had the foresight to create LAPP and the current LAPP Board are to be heartily congratulated: LAPP's income from its bank deposits in the year to 30 June 2005 was enough to pay for all of LAPP's costs for that year including its reinsurance program. This meant that every cent received by LAPP from its members in 2004/05, a total of \$1,746,633, was set aside in LAPP as provision for future claims together with an operating surplus of \$168,000. It is no surprise therefore that LAPP has recently been successful in recruiting its fiftieth local authority member.

Management

Tim Sole BSc MBA CStat FNZIM FIAA FNZSA ANZIF (Fellow)
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Geoff Mercer AINZ AAI ANZIM
(General Manager)

Roger Gyles CA
(General Manager – Finance)

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Catastrophes and your Insurance

The world has experienced more catastrophes than usual in the last twelve months. For every catastrophe there are huge social, economic and environmental consequences, but this article focuses on what the recent catastrophes mean to insurers and their customers.

The insured losses of the 2004 Boxing Day tsunami are estimated to be US\$2.5 to US\$4 billion from a total loss of US\$10 to US\$12.5 billion. Given the size of the earthquake that caused the tsunami and its estimated death toll of 230,000, the losses could easily have been many times higher. It just happened that the areas struck by the Boxing Day tsunami were areas of generally low wealth.

The earthquake that caused the Boxing Day tsunami was more powerful than all of the world's earthquakes in the previous five years combined. It was 1000 times more powerful than the 1995 Kobe earthquake and caused at least 20 metres of horizontal movement of the seabed floor. The maximum flood height was 38 metres above sea level and flooding occurred up to five kilometres inland.

The return period for a tsunami of this magnitude is roughly 65 years. The earthquake that caused the 1960 Chile tsunami was at least twice as powerful as the 2004 Boxing Day earthquake. Tsunamis are caused by earthquakes 80% of the time, by volcanoes close to or under the sea 14% of the time, and 6% of the time by rock slides. New Zealand's entire coastline has a tsunami risk; the largest in terms of economic impact (but not probability) being the exposure of the Bay of Plenty coastline to a major eruption of White Island.

Total insured catastrophic losses for 2004, which includes the Boxing Day tsunami, are estimated at US\$49 billion. That is the worst year on record. However, insurance claims for Hurricane Katrina on its own could exceed that number, with total damage estimated at US\$125 billion (ten times the higher limit of the Boxing Day tsunami) and the insured damage at between US\$25 to US\$60 billion. (The large range is because of the uncertainty as to what will be defined as flood damage and who will then pay for that.)

To put these numbers in perspective, the capital of all the insurance and reinsurance companies in the world prior to Hurricane Katrina was US\$400 billion. Aon Re, the world's biggest reinsurance broker and source of many of the statistics in this article, estimates that a loss of US\$50 billion for the 2005 USA hurricane season will cause a credit rating downgrade for reinsurers of two notches on average and a price increase for reinsurance across the board of 15% to 30%.

Before Hurricane Katrina (August 2005), 2004 was the worst hurricane season on record with estimated insured losses exceeding \$US20 billion. Hurricane Rita (September 2005) is expected to cost insurers US\$5 billion, and could have been considerably more costly but for its late change in course. Hurricane Wilma (October 2005) is a record-tying 21st storm for the 2005 season and for a brief time was stronger than any Atlantic storm on record.

Hurricanes are caused by warm oceans, so increased activity and/or intensity of Hurricanes goes hand in hand with global warming. However, it should be noted that oceans can also be warmed by underwater geothermal activity. The number of category 4 and 5 hurricanes worldwide has nearly doubled over the past 35 years.

Our part of the world has had its fair share of floods in the last eighteen months, particularly Manawatu and the Bay of Plenty, and more recently in Australia's Gold Coast and Gisborne. In Mumbai (the commercial capital of India and formerly known as Bombay), the July 2005 floods saw 944 mm (37.2 inches) of rain in 24 hours and over a 1000 deaths. This happened just one month after similar flooding in Gujarat. On 8 October, India's neighbour Kashmir suffered a 7.6 earthquake that has made over 3 million people homeless: a scale of devastation comparable to the Boxing Day tsunami.

What does this mean to your insurance premiums? They will probably be going up. Civic has bought its reinsurance for the period to 30 June 2006, so renewals with Civic before then are unlikely to be affected. We don't have a crystal ball for forecasting these things, but when it comes to your budget for insurance premiums renewing on or after 30 June 2006, we suggest you add an extra 10%.

AM Best confirms Civic's financial strength rating

Leading insurance company rating agency, AM Best, has awarded Civic Assurance a financial strength rating of 'A (Excellent)' since 1995. That rating was recently confirmed for another twelve months with the comment that the outlook for the rating is stable.

AM Best further commented that:

"The rating reflects Civic Assurance's strong capitalisation, profitable and improved underwriting performance as well as a highly liquid investment portfolio. Civic Assurance has consistently improved its operating performance over the past few years."

Civic insures over \$8 billion of local government assets.

Civic's Directors

As a new appointment to the Civic Board, Civic is fortunate to have secured the services of Bryan Taylor, former CEO of Auckland City Council. The other four directors are: Kinsley N Sampson MNZM JP (Chairman), Darryl C Griffin, Robert A Lineham and Howard J Stone.

Members of the current Civic Board would particularly like to record their thanks to two very long serving directors who have recently retired from the Civic Board. They are Ian Lawrence CBE and Warwick Davis.

Ian served twenty years on the Civic Board, nine of which were as Chairman. Warwick's time as a director with Civic was shorter, but his association with Civic was for a period similar to Ian's.

Both Ian and Warwick contributed wisely and valuably to Civic's development and can justifiably take pride in the fact that Civic today is in such good shape.

SUPER easy



SuperEasy – leading the way in retirement savings

How can we say we are leading the way? Our new SuperEasy savings plan includes a very simple and innovative method of managing retirement savings. Combine this with SuperEasy's low charges, and we think SuperEasy is a winner.

SuperEasy was established on 1 June 2005. Like its predecessor Superplan, its purpose is to provide retirement benefits for employees of local authorities. SuperEasy is based on the well proven method of saving by salary deduction, and does not rely on employer subsidies.

As its name suggests, SuperEasy has been made as simple as possible so as to be easily understood. Happily this also and significantly simplifies the administration: for us, the members, and their employers.

As part of the simplification we have developed an optional 'Automatic Fund'. This delivers a pragmatic and effective solution to what can often be a complex issue inherent in many superannuation schemes – what to invest in and when to time your investment switches.

We see the 'Automatic Fund' as a real advance in retirement savings management, and are very proud that this has been designed by Civic Assurance exclusively for Local Government employees.

A key feature enjoyed by members of SuperEasy is low, wholesale-equivalent, fund management charges. Better still, the low fund management charges that apply when a member is with a council will not be increased just because that member then leaves their council! This is more than improved portability: it also and importantly means that members can choose to use SuperEasy for managing their retirement savings throughout all or part of their retirement.

For the nearly 90% of councils that place their insurance through Civic, their staff are entitled to have the \$60 per annum SuperEasy administration fee waived.

In order to enhance the level of service to members and councils we have developed the user-friendly SuperEasy website. This provides accessible and up to date details on all aspects of the scheme. Information to answer most of members' and potential members' questions can readily be found on this website.

How easy is SuperEasy? Log on to www.supereasy.co.nz. We believe members' money should be working for them from day one and that members should be able to track the progress they are making with their savings. As such we allocate each member a personal password that allows them (and only them) to access their account balance details via the web.

Ian Brown joined us at the end of last year as Civic's Superannuation Manager. He has been extremely active in developing SuperEasy, and is now enjoying the busy task of introducing SuperEasy to individual councils and their staff. Ian brings with him much industry experience. For those of you who have already met and heard Ian explain how SuperEasy works, you will appreciate we have a tremendous resource working solely for the benefit of local authority superannuation. Ian can be contacted on 04-978-1263.

Isn't it great for Local Government to be leading the way!