

ALLIED INSURANCE GROUP

Welcome to our second newsletter from the Allied Insurance Group. In less than 2 years the Allied Insurance Group has grown to a co-operative of 24 independently owned insurance brokers operating throughout New Zealand.

An example of the many advantages Allied can obtain with our combined buying power is the "Management Shield" Liability Package from Lumley General Insurance which we can offer at very competitive premiums. Last issue we discussed the dangers of emails and in this issue we discuss internet liabilities, which can be insured against under the "Management Shield" Package.

Other benefits for us, and ultimately you, are that we can call on the experience of the other 23 members, share best practice so that we are as efficient as possible and ensure with any legislative requirements that not only do we meet these but are well above any standard required.

We had a lot of feedback from our first newsletter and this is always appreciated. Not all the articles will have an Insurance flavour, but they will be relevant to most businesses.

WIRING IN BUILDINGS

In 2006 there was a fire in a drycleaning business that did extensive damage. The client and the broker thought that they had covered all bases with regard to having the plant insured for replacement value. However there was one item they had missed which only became apparent during the repair process.

That item was the wiring that the client had put into the shop.

The wiring for the lights is part of the building and is included in the building insurance. **Any wiring put in by the tenant is deemed to be "Tenants improvements" and must be covered under the tenant's policy. This will be covered under most policy wordings but you need to ensure that your sum insured is not exhausted before the wiring costs are met.** As well as mains wiring the tenant puts in, they also need to remember to include the costs of computer cabling as well.

In this particular claim the cost of putting in the new wiring was \$50,000; a considerable sum.

With an industrial client the subject of wiring was discussed and he advised that for them it would be well into 6 figures.

INSIDE ARTICLES

Going Overseas

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Internet Liability

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Premium Increases

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R & D Tax Credits

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Some Home Truths



DID YOU KNOW

1. Remember, half the people you know are below average.
2. He who laughs last, thinks slowest.
3. Depression is merely anger without enthusiasm.
4. The early bird may get the worm, but the second mouse gets the cheese in the trap.
5. Support bacteria. They're the only culture some people have.
6. A clear conscience is usually the sign of a bad memory.
7. Change is inevitable, except from vending machines.

GOING OVERSEAS ????

While overseas travel can be an exciting prospect, there can be situations where things may go wrong, and travellers could find themselves faced with a medical emergency, or finding the funds to replace lost luggage, or having to make an urgent trip home.

Travel insurance will normally provide the following protection:

- Cancellation and loss of deposits
- Medical treatment costs
- Costs for returning home in certain emergencies
- Loss of luggage and personal items
- Personal liability, excluding deliberate acts and use of motor vehicles.

Travel insurance tips

- Purchase insurance from your Allied broker before you leave home. It's unlikely you'll get insurance if you have already left the country.
- If you require cancellation cover, you need to arrange your travel insurance when you book and pay for your tickets and not leave it until just before you travel.
- Keep the details of your insurance emergency assistance provider with you when travelling. In the event of an emergency you may need to contact them for emergency medical treatment or advice on other travel emergencies.
- Your travel insurance policy will have some exclusions. General travel insurance policies won't cover loss of personal items which are left unattended, or the insolvency of a service provider such as an airline. Your policy may not cover you for losses due to acts of terrorism.
- Declare any **pre-existing medical conditions**, not only for yourself, but close relatives back home.



- **Winter sports.** Skiing or snowboarding activities need to be advised to your broker when taking out insurance as some policies may not cover you for this.
- **Hazardous pursuits** such as scuba diving, bungy-jumping, hang-gliding, water skiing and motorcycling may not normally be covered, however, you should discuss this with your broker when purchasing the insurance policy.
- **Motor vehicle liability** (and damage to the hire car). Generally travel insurance policies do not cover liability for renting a motor vehicle in another country. You should always purchase full insurance in the country that you hire the motor vehicle.
- **High valued items.** Advise your broker that you are going to be taking or purchasing high valued items for example cameras and jewellery on your holiday. You should discuss your insurance options and the cover you require with an insurance specialist, your Allied broker. If you or your staff are frequent travellers then you should look at purchasing corporate travel insurance.

INTERNET LIABILITY

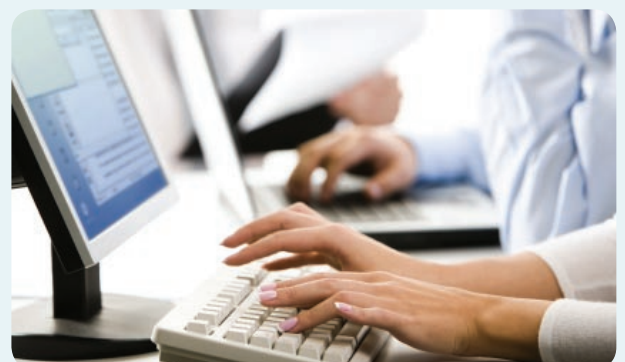
The growth of internet-based technology and electronic communications has revolutionised the way we do business. In the past decade, many small and medium-sized businesses have been able to improve efficiency, reduce costs, provide better customer service and access previously unreachable markets by utilising online tools and capabilities. Such growth opportunities are not without associated risks however.

While electronic communications have broken down many barriers for businesses, they have also created vulnerability to unwanted or potentially harmful contacts.

E.g did you realize that one in every 127 emails contains a virus!

Internet Liability policies are therefore important for any businesses with online operations. Such liability cover takes into account a range of situations such as

- The unintentional infringement of intellectual property rights
- "Passing off" –using a format similar to another business, either through e-mail or a website
- Defamation or any act that belittles the product or works of others



- Breaching confidentiality or infringement to the right of privacy
- Unauthorised use of names (including domain names),trade names, trade addresses, logo's or any other copy write material
- Damage to other systems through 'Denial of Service 'attacks.

Although a number of these situations are not new to the internet era, the ease of electronic communications materially increases the chances of serious harm occurring, increasing business liability risk.

A liability policy that encompasses Internet Liability exposures is a prudent risk management consideration for any business with online operations. As members of the Allied Insurance Group we are able to access a unique liability package which specifically addresses these business risks. The package also covers other potential areas of risk such as

- Personal grievance actions brought by disgruntled employees
- Prosecution by the Department of Labour under the Health & Safety in Employment legislation
- Theft of your money or stock by an employee
- Costs of defending investigations into your business activities by regulatory authorities such as the commerce commission
- Actions brought against you as a director by your financiers or shareholders
- Financial loss allegedly caused to a client by your products or services

If you believe changes in your business methods could present the potential for risk in this particular area then please don't hesitate in contacting us and we would be happy to talk through the issues with you.

INSURANCE COSTS TO RISE

Insurance companies are poised to impose increases for commercial insurances this year. We have already seen substantial increases in the domestic market, particularly on home insurance where increases of up to 30% are common place.

This is a result of the insurance market suffering from the higher cost of claims, higher rebuilding costs, and major weather events occurring more frequently. Losses from the recent earthquake in Gisborne will only harden the attitude of the insurance companies to enforce these increases.

It is difficult to predict the range of the increase as many factors will affect the increase on individual businesses, but increases are anticipated at 5% to 10% in 2008. Already in late 2007 NZI, Vero and Lumley have advised the market that they will be applying increases to their commercial business.

Be assured we will manage this market activity on your behalf. However, it may be wise to factor a small increase into your 2008 budget as a safeguard to the market activity now underway.

We have all noticed the increased frequencies of weather related events in New Zealand and the list details the events over the last two years and the costs are only insured losses. In 2005 there were 9 events that cost the insurance industry \$60.5m.

WEATHER RELATED LOSSES

(Source - Insurance Council of NZ)

| Date | Cost | Cause, Location |
|--------|---------|---|
| Oct 07 | \$4.8m | Winds, Central North & South Islands |
| Jul 07 | \$1.1m | Flooding, Hawkes Bay |
| Jul 07 | \$50.5m | Storms, Far North, Auckland, Coromandel |
| Jul 07 | \$7.0m | Frosts, Otago, Canterbury |
| Jul 07 | \$8.3m | Tornado, Taranaki |
| May 07 | \$1.1m | Flooding, Nelson, New Plymouth |
| Mar 07 | \$12.5m | Storms, Far North |
| Nov 06 | \$3.4m | Windstorm, North Island |
| Jul 06 | \$2.7m | Storm/Floods, Lower North Island |
| Jun 06 | \$42.5m | Storms, North & South Islands |
| Apr 06 | \$1.8m | Flooding, Oamaru, Dunedin |



WILL YOU QUALIFY FOR AN R & D TAX CREDIT?

Do you undertake Research and Development activities? If so, from 1 April 2008 you may be entitled to a tax credit from the government to help with furthering that research. In 2006 the government announced possible tax initiatives targeted at transforming the New Zealand economy by encouraging businesses to invest in R&D. It is expected that businesses will have improved productivity and be more competitive with overseas countries as a result of the increased R&D expenditure.

The R & D legislation has now been enacted. In general the changes apply from the start of your 2008/09 income tax year (1 April for a March balance date).

Broadly speaking, Research and development activities are activities carried on for the purpose of:

- (1) acquiring new knowledge, or
- (2) creating new or improved materials, products, devices, processes or services.

To be entitled to claim the R&D tax credit, you must be able to demonstrate that the R&D process employed followed a planned and logical progression, directed towards a particular purpose. To be eligible for the R&D tax credit, you must be carrying on a business in New Zealand through a fixed establishment.

If you meet the above test, you must then also meet the following four criteria:

1. You must carry on R&D activities related to the business;
2. You must control the R&D project, bear the financial and technical risks associated with the project and own the results of the activities;
3. You must have eligible R&D expenditure or depreciation that is tax deductible;
4. You must have eligible expenditure of \$20,000 or more for an income year, unless the R&D is contracted out to a listed research provider.

Eligible expenditure includes salary, wages and other costs relating to the personnel conducting the R&D activities, depreciation of assets used to conduct the R&D activities, costs of materials and services used and some overhead costs. It will also include the costs relating to the use of a listed research provider. Costs relating to the development of internal software are also eligible but it is proposed that there be a \$3 million cap for these costs.

What is the credit?

The credit is not a grant, and does not require a pre-approval system similar to some of the grants available through agencies such as New Zealand Trade and Enterprise. The R&D tax credit will be 15% of all eligible R&D expenditure incurred in an income year and will be deducted off the businesses tax liability for the year. The business still gets to deduct the R&D off their taxable income in the normal manner as well as claiming the special credit.

To be entitled to the tax credit, you must provide a detailed statement of R&D activities and expenditure to the IRD in the prescribed format as well as your income tax return.

Article by Phil Barlow, Tax Director

Hayes Knight Ph 09-414-5444 www.hayesknight.co.nz

HOME TRUTHS FOR CHILDREN

You can't trust dogs to watch your food
Don't sneeze when someone is cutting your hair
You can't hide a piece of broccoli in a glass of milk
When your Mum is mad at Dad, don't let her brush your hair
Never hold a Dust-Buster and a cat at the same time
If your sister hits you, don't hit her back. They always catch the second person
Never ask your 3-year old brother to hold a tomato

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