

Catherine Best

From: Anthony Stewart
Sent: Friday, 21 February 2014 5:55 p.m.
To: Jeff Hamilton
Cc: Tania Pringle; Catherine Best
Subject: FW: IAG/LUMLEY
Attachments: 0562_001.pdf

Importance: High

From: Trevor Toohill [<mailto:trevor@multisure.co.nz>]
Sent: Friday, 21 February 2014 4:26 p.m.
To: Registrar
Subject: IAG/LUMLEY
Importance: High

Submission to the Commerce Commission

Submission on the Commerce Commissions consideration of the competition issues in approving the acquisition of 100% of the shares in Lumley General Insurance (NZ) Limited by IAG (NZ) Holdings Limited.

Submitter: MultiSure Limited

Contact Details: Trevor Toohill. Transport Consultant, MultiSure Limited, 54 Wellesley Street, Auckland, NZ. Email address: trevor@multisure.co.nz

Submission in electronic form to registrar@comcom.govt.nz

Date: 21st February, 2014

MultiSure Limited opposes the purchase of Lumley by IAG.

REASONS

Competition in my specialty field – heavy commercial motor insurance , will be seriously compromised by the incorporation of Lumley into the NZI structure.

Currently insurance brokers have access to only two truly specialist transport insurers – Lumley General and Motor & General. IAG and other insurers will argue that they compete in this market but I would suggest that they are not specialist insurers in the heavy motor field.

NZI, QBE, Vero, and Zurich all transact business in this field with only NZI having some claim to market share and a desire to gain specialist status.

Only Lumley, M & G, and NZI have any appetite for transacting heavy motor insurance. Three insurers is minimal – previously four including NTI Insurance which has already now been fully absorbed by NZI.

I challenge IAG's claim that competition will still exist in this field of commercial motor insurance. The companies that they have named in their submission are not actively seeking further market share in this highly specialised sector.

The companies they name as likely to enter the NZ insurance market in the future are doubtful contenders to make such an investment and I challenge IAG to provide backup data and confirmations from these insurers.

In light of the debacle at present with the NZ supermarkets and the lack of competition in this field I see parallels with what is happening in insurance.

Truck insurance is highly priced and subject to the slightest movement in underwriting sensitivity. Competition is imperative to keep a cap on excessive profits. Premiums respond to competition.

Transport is a vital sector of NZ commerce and highly cost sensitive.

Similar concerns currently exist in other world markets - Canada being an example.

If this transaction is approved it would be impossible to reverse the damage.

Articles of interest in support of my submission are attached.



Trevor Toohill
MULTISURE LTD
Transport and Contracting
consultant

Phone 09 300 5580
Fax 09 358 4155
Mobile 0274 661994

Unit 4B 54 Wellesley St
Auckland 1010
P O Box 6350, Wellesley St
Auckland 1141
Email: trevor@multisure.co.nz
Web: www.trucksure.co.nz
Blog: www.trevortoothill.blogspot.com

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Truck Journal
article
February, 2014,
3 pages.

TRUCK INSURERS – AND THEN THERE WAS ONE!

By Trevor Toohill, TruckSure

You can still buy competitively priced truck insurance in New Zealand – but for how long?

Currently insurance brokers have access to only two truly specialist transport insurers – Lumley General and Motor & General. Other insurers will argue that they compete in this market but I would suggest that they are not specialist insurers in the heavy motor field. NZI, QBE, Vero, and Zurich all transact business in this field with only NZI having some claim to market share and a desire to gain specialist status.

And that is what is really bothering me.

IAG's intention for NZI to gain this status and increase market share lies in the acquisition by purchase of Lumley General Insurance.

This is pretty scary stuff for the substantial number of trucking firms operating in New Zealand – both fleets and owner operators.

Why?

Pretty simple, competition keeps a lid on excessive profit.

Insurance premiums and terms of cover are likely to be affected by the loss of such a significant player in the insurance industry as Lumley's are.

By now some of you may well be asking what the hell am I on about. You may have missed the news releases so I will repeat some of the content:

“The Commerce Commission is still weighing up whether to allow the Australian insurer, IAG, to buy Lumley General Insurance, currently the country's third biggest insurance company, with a decision expected on 28th March 2014.

The deal requires approval from the Reserve Bank, Commerce Commission and Overseas Investment Office.

In New Zealand IAG already owns NZI, AMI and State Insurance.

In December it announced a A\$1.845 billion deal to buy the underwriting businesses of Australia's Wesfarmers, which includes Lumley General Insurance in New Zealand.

The deal would increase IAG's share of the overall insurance market to about 50.5% from 41.5%, lift its share of the home and contents and vehicle insurance market to 66% from 60%, and give it 40% of New Zealand's intermediated insurance market.”

Gary Young, chief executive of the Insurance Brokers Association of New Zealand (IBANZ), has agreed there were certainly misgivings among brokers that a major player would be lost.

The market's not that big in New Zealand and there are not that many players, especially players like those two that cover the most common lines.

His other concern was whether the market would lose the capacity to cover all the risks New Zealand has.

IAG maintain that the Lumley acquisition wouldn't result in a substantial lessening of competition. In its application to the Commission it stated it would be constrained by existing competitors including Vero, Tower, QBE, FMG, Allianz, Zurich, AIG and Medical Assurance Society.

This may well be true if all those companies named by IAG in its submission were transacting identical lines of business – but they do not, and this certainly applies to transport and trucking.

The premium pool for this sector of trade is very substantial and certainly makes up a huge proportion of the Lumley premium income.

Now I have no desire to be alarmist and I personally have the greatest respect for Lumley General and in particular their outstanding team of people and their expertise. But there is a fair chance that we will see the loss of an iconic specialist company and with it a gap in competition.

I know plenty of TruckSure clients are going to be pretty unhappy with the prospect of having to lose this association and I am sure that may well apply to a lot of other truck operators as well. **And** don't forget the recent loss of NTI Insurance – an NZI offshoot now completely absorbed into the NZI business.

During the week I have had the chance to discuss this takeover with David Boyce and David Aitkin of the NZ Trucking Assn and National Road Carriers Assn. Both were aware of the proposed sale of Lumley and the incorporation of the business into the NZI machine. It seems that a wait and see stance is being taken by these representative organizations.

Can I suggest that it is timely to openly discuss the various outcomes and perhaps come to a conclusion that a submission to the Commerce Commission may be warranted? I strongly believe that a shrinking insurance market for trucking operators is not a good outcome. A good example has been experienced in Canada – a huge market compared to NZ but they are now down to just 3 specialist truck insurers and I can show you plenty of negative data on how this is affecting transport companies insurance options, terms and premiums.

I am probably going to get myself at odds with both Lumley and NZI by making these comments.

That is not my intention.

My intention is purely to inform.

I respect these companies immensely and TruckSure has substantial business with them both, but that does not mean you just sit back and let something happen which you believe is to the detriment of the business you love - Trucking.

At the end of the day the transaction will be approved or declined and either way life will go on – we will adapt, but at least give it some thought and react accordingly.

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Up in the air

An exodus of trucking insurance specialists has left O/Os with fewer options

By: James Menzies
2013-05-01

WHITBY, Ont. – Single-truck owner/operators, particularly those serving niche markets, are finding it more difficult – and much more expensive – to find insurance, thanks to a rapidly changing insurance landscape that's comprised of fewer trucking specialists.

Insurance providers that at one time specialized and understood the trucking industry are exiting the business or being acquired, leaving some owner/operators with fewer choices when it comes time to renew their policies. As it stands today, only Old Republic insures trucking companies exclusively.

"Single unit owner/operators are having a terrible time finding affordable coverage, because of the recent paradigm shift taking place in the trucking insurance industry," one trucking insurance representative, who asked not to be named, told Truck News. "We have gone from four traditional truck insurance companies specializing in trucking insurance to nine generalists with a trucking silo. This means underwriting rules, as we know them, have changed drastically, as has appetite (for risk). This also means that what used to be covered and understood by a specialist is now not allowed, or shied away from by the generalists as high-risk operations."

Unfortunately, it's the little guys who are most affected by the evolving insurance landscape. Jan Phillips and wife Bronwyn, scrap metal haulers from just outside Port Perry, Ont. are one example. They have traditionally been insured by Jevco, which in 2012 was acquired by Intact.

With their policy coming up for renewal, the Phillips' received a letter from their broker advising them that "Intact has a new filed rule which stipulates non-renewal to scrap metal haulers using open-top trailers. I advised the company that you have a hand-cranked tarp, but they are adamant that it must be enclosed in order for them to offer a renewal. We are currently approaching other markets that we represent, however we have not been successful in obtaining a competitive quote."

The only quote the broker did provide was for \$16,636, a nearly 300% increase from their previous \$6,200/year policy.

Coupled with Ontario's recent and impending 70% licence fee increases, it's enough to make them seriously consider parking the truck or finding something else altogether to haul.

Phillips, it should be noted, has been an owner/operator for 41 years and hasn't filed a claim in more than 30.

"I may have to go haul van or tank or something for somebody else," a frustrated Jan Phillips said in an interview. Wife Bronwyn added: "But that's really not right. Why should we have to give up a good contract? It keeps him home every night, there are hardly any miles on the truck, we have a good fuel surcharge for the first time ever – why should we have to give that up?"

Phillips isn't the only owner/operator facing the same grim prospects. Bronwyn estimates as many as 65% of scrap metal haulers in their area were insured by Jevco, and those who work alongside Jan, hauling for Gibson Towing Service are having their policies non-renewed, one by one.

During a visit to Gibson Towing Service, Truck News found a fleet of fairly new Raglan trailers in good repair. Phillips pulls a 2012 Raglan model with a hand-cranked tarp. The trouble is, rules are rules and Intact's indicate open-top trailers are not acceptable. But, are rules rules?

Adding salt to the wounds, one multi-truck owner/operator with the same company told us he was able to remain with Intact, after bringing his personal insurance together with his trucks and trailers under a balloon policy.

Bronwyn compared the practice to Tied selling, which is illegal.

However, without knowing the specifics, an insurance industry insider told us it could be a "broker accommodation," to assist a "large premium broker," or a genuine attempt to retain a longstanding, good customer. Such an exception may look good to a policy-holder on paper, but they should carefully review the policy to ensure it includes all the proper coverage.

Angelique Magi, vice-president of strategic initiatives with The Guarantee Company, is one of those few remaining trucking insurance experts. She pointed out there are some legitimate reasons why insurers have little appetite for the risks inherent with certain sub-classes within trucking, scrap metal being one of them.

"There's not just a risk of stuff flying out of the trailers," she said. "There's also an inherent risk of fire on these types of loads because certain metals react with each other in an enclosed environment, where you can get friction and they can catch fire."

Phillips acknowledged trailer fires do sometimes occur when hauling scrap metal, usually because a wrecker failed to remove the car's batteries before it was crushed.

Still, he said, it's rare, and he's never experienced a fire.

Other red flags that could deter an insurer include a by-the-trip pay structure, which could reward short-haul drivers for rushing to get in extra trips throughout the day.

Magi empathizes with the owner/operators who find themselves without affordable coverage due to no fault of their own.

So, what are owner/operators who find themselves in this situation to do?

One option that should be considered is to use a broker who specializes in transportation. Not all brokers represent all insurers.

"I would look to see if there's a special program out there that one broker has," Magi suggested. "If they've asked for multiple quotes and they're only getting one, there are other companies out there that write this class of business, they just may not be represented by this particular broker."

In some situations, it may make sense for an owner/operator to slide his or her truck onto the fleet policy of the company they haul for. This, however, may require some compromises on the owner/operator's part.

"They may have to sign an exclusivity clause and they'll have to adhere to all the rules their regular company drivers would adhere to," Magi warned.

Alternatively, they could couple up with other owner/operators to form a "mini-fleet" of vehicles that could qualify for a fleet policy of their own.

"They're not doing anything wrong," one broker told Truck News. "That's what they're forced to do."

With the days quickly counting down to the expiration of Phillips' policy, he's still unsure of his next course of action. He has talked to the owner of Gibson Towing about joining his fleet policy, but worries about losing his independence and ability to haul for others if necessary.

He has also placed a call to another broker in hopes there may be other options out there.

Magi said the trucking industry is in dire need of more specialists, but till then, options remain limited for small operators, particularly specialty haulers.

"There's definitely a need for a fresh face to come in and specialize in (trucking) in the true sense of the word, where they're not just offering coverage with nothing to back it up," she said. "There's a definite need for a new leader as far as understanding the transportation business."

Without options, Bronwyn Phillips expressed a concern that road safety could, ironically, be compromised as owner/operators act out of desperation.

"Guys will fabricate themselves a pink slip and will be running up and down the road with no insurance," she speculated. "We paid \$14,000 for the truck. The average guy can't afford to pay \$16,000 for insurance, with no collision on it."

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