

MACKAY

ON MONEY

BY FINANCIAL ADVISER CHRIS MACKAY

In my last article, I reminded readers of the theory of insurance. Here's a good definition from the Oxford Dictionary: "Insurance – an arrangement by which you make regular payments to a company who pay an agreed amount if something is lost or damaged or someone is hurt or killed."

I wrote that last article before the terrible events of February 22 panned out in Christchurch and of March 11 in Japan. In the September 4 quake, of course no-one was killed and for that we were mighty lucky. No-one expected another big one and especially

one that could take the lives of so many.

A common comment I have heard from clients regularly over three decades is they are not planning to die or get crook. Brilliant! Not too many people do. Well maybe the brainwashed youngsters from the fundamentalist nutters' suicide bomber recruiting school. But that's about all.

No-one plans to be in a bus hit by falling masonry or in a mall that collapses or hit by a rolling rock or a TV toppling over. No-one plans the building they are in will concertina down. No-one plans to place themselves in the path of a tsunami.

This isn't rocket science you know. Bad things can and do happen to good people. Which is why people insure themselves if they love someone (or themselves), are obligated to someone or if there are financial consequences if something happens to them.

Likewise this is why people insure their things. Their cars, houses and contents, their buildings and businesses. People and businesses buy insurance because the financial consequences of a loss are more than they are prepared to accept.

I have a mate whose father's business was wiped out by a fire back when my friend was at primary school. Maybe he didn't realise he was underinsuring or perhaps he knew, but thought it would never happen. And this is what some of our Christchurch cousins appear to have believed too. Some also will have apparently thought "lightening never strikes twice", after the September 4 earthquake. You would have thought no hitherto undamaged business would have been without business interruption cover after September 4. But you would be wrong.

I'm picking though, most individuals and businesses who employ the services of a competent insurance broker, would have all the appropriate cover in force. Those DIYers driven by price only, who like to deal direct with insurance company call centres or the banks' insurance departments may be the ones who have had some additional post earthquake issues. I'm biased here and will disclose I have shares in a general insurance brokerage (Rothbury Wellington Ltd). However, I'm told various surveys have indicated those people who use the services of a fire and general insurance broker receive on average 20 per cent more in claims payouts than someone dealing directly with an insurance company.

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I mentioned in my last article the amounts the Earthquake Commission (EQC) will pay out. I have done a bit more research on this and have gathered some information from their website www.eqc.govt.nz.

"EQ Cover is the name of EQC's earthquake and natural disaster insurance for homes, personal possessions and land ... and is [only] obtained automatically when you take out a home or contents fire insurance policy. The premium you pay to your insurance company includes the premium for EQ Cover."

There are some who now believe premiums should be collected via council rates so everyone pays and at least has some cover. The premiums should and will increase in order to replenish the coffers which will be largely empty when all the claims are settled. Last year there was about \$5.6 billion in the pot. Reinsurance kicks in for claims of over \$1.5 billion. The February 22 quake appears to be a second event so another \$1.5 billion will come out of the moneybox. There have also been some storm claims up north. There is a Government Guarantee in place in addition which ensures the EQC will always be able to meet its obligations.

The maximum amount EQC will pay for your house is \$100,000 plus GST and for personal possessions \$20,000 plus GST. There are some excesses but not huge. There is also a list of exclusions.

"A home is a building or a part of a building where people live."

Separate buildings like sheds and garages are also covered as are services which you own like water pipes and electrical cables, but only up to 60 metres from any of the buildings forming part of the house.

"Personal possessions are your personal effects and the contents of your home or houses."

Some of your land is insured but the cover is definitely limited and needs a rethink in my opinion.

"[The land] cover is limited and is restricted to land within your property boundary and comprises only:

- The land under your home; [Completely reasonable]
- The land within eight metres of your home; [Completely unreasonable. Go and pace out the front or back door to your fence.]
- The land of the main access way (or under or supporting the main access way) up to 60 metres from your home, but not the driveway or any artificial surfaces like concrete or asphalt that cover the access way ..." [Your insurance company may top this up.]

"I have a mate whose father's business was wiped out by a fire back when my friend was at primary school. Maybe he didn't realise he was underinsuring or perhaps he knew, but thought it would never happen. And this is what some of our Christchurch cousins appear to have believed too."

What does EQ Cover insure you for?

"You are insured against loss or damage to your home, your personal possessions, and land by earthquake, natural landslip, volcanic eruption, hydrothermal/geothermal activity, tsunamis (sea waves caused by movements of land or the sea floor) and fires resulting from these natural disasters.

Your land is also insured against storm and flood damage."

In the old days, and when I was personally selling house and contents policies, the body looking after all this wasn't the EQC but the Earthquake and War Damages Commission. Established in 1945, loss caused by warlike activities was also covered. The amount of

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CHRIS MACKAY
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UK Pension Transfers



PETER BAIRD
BE (Civil), Dip Bus Stud (PFP)
Financial Adviser



BLAIR BENNETT
MBS, Dip Bus & Admin,
Dip Banking, F Fin.
Financial Adviser

Level 5, 92 Queens Drive, Lower Hutt

570 2233

office@mackay.co.nz

www.mackay.co.nz

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cover was not restricted either but possibly fearing some calamity like the one/s we have just experienced, when the new Earthquake Commission Act 1993 was passed, the Government set the limits of \$100,000 (house) and \$20,000 (personal possessions), with insurance companies charging for and doing the top-up.

However be aware insurance companies generally won't cover war, invasion, act of foreign enemy, warlike operations (whether war be declared or not), civil war, rebellion, revolution, insurrection, military or usurped power or confiscation, destruction or acquisition by Government or local authorities.

So the current Libyan situation (as at March) would spell big trouble for property owners.

Also not covered is loss etc from nuclear weapons, ionising radiations or contamination by radioactivity from nuclear fuel or the combustion of waste from nuclear fuel.

Meaning a Japanese nuclear power plant issue would not be covered either.

And finally, terrorism and consequential happenings are not covered.

All good reasons for sticking with democratic elections, stable government, retaining strategic military alliances and staying nuclear free.

Back to the cover for land. Insurance companies specifically exclude cover for land but the EQC may pay. How much?

- "Payment of claims for land will be based on a professional valuation [So far so good.]
- The maximum amount EQC will pay for land is either the value of the land destroyed or damaged [Good], or
- the value of 4,000 square metres (about an acre) [Sounds fair for most townies], or
- the value of the minimum sized building site allowed in the area [what defines the area?] in which you live – whichever is the lower" [What dorkish MPs were on the Select Committee for this one to get through? Oh, it's obvious of course; another badly thought out piece of legislation from the bungling Bolger led government. Why wouldn't they have done it based on the actual size of the property?]

To put this in perspective if I'm interpreting the rules accurately, if you live in Lower Hutt on a fifth of an acre (about 800 square metres) and if you had

to walk away from your land because of say liquefaction, then you would not be compensated for 800 square metres. If instead you lived for example in Kings Crescent, a higher density residential area, you would be compensated for only 300 square metres which is what the Hutt City Council allows our citizens to build on. Apparently the general residential minimum site is 400 square metres in Lower Hutt for most properties – but there is a special residential minimum site around Totara Crescent for example which goes up to 700 square metres.

So an avaricious city council hungry for rates, which encourages infill housing and tiny sections, could theoretically cause some poor ratepayers who have a larger than 300 square metre section to be considerably penalised by what is going to happen sometime (when, not if in the Wellington area) and possibly this century; not next.

This would be a very opportune time for our city fathers to reconsider and to increase the minimum sized building sites allowed in the various areas if simply to get around the wording under the EQC provisions.

In summary, you may get the idea I'm a bit of an insurance junkie. Well done if you have spotted that. My Cantabrian colleagues tell me (late March) try as they might, they cannot place new fire and general insurance cover for clients. That is, if you are going to settle on a newly purchased house in Canterbury, you simply cannot buy insurance for that house. No insurance company wants to know you. Which is why the idea of having earthquake cover at least, payable via one's rates, would be a grand idea. I understand even buying car insurance is impossible at the moment and as far south as Timaru. If you have got it already that's ok. But this is not the situation in the Lower and Upper Hutt Valley or in Wellington. If you have not done so, sort it out. Now.

And likewise, if you are not financially independent, make an appointment with a financial adviser and get them to do a needs/wants analysis to determine how much Life, Disablement, Trauma and Income Protection cover you should be carrying.

And lobby the Mayor and Councillors to change the minimum building sites allowable in Upper and Lower Hutt.

(These are generalised comments only and should not be taken as personalised advice. A Disclosure Statement is available on request and free of charge.)