

## NOTES REGARDING DRY HIRE

Prior to the development of the Extended Dry Hire (EDH) option by CEMAC Pty Ltd with Lumley General in October 1997 it was only possible to get basic Dry Hire cover. This meant that the insured was covered for loss or damage to plant out on dry hire provided that the insurer's subrogation rights against a hirer were not interfered with (i.e. no damage waivers). In fact many policies stipulated that conditions be in place making the hirer responsible for damage and taking out insurance on the plant. For short-term hires it was obviously very difficult to obtain such insurance.

A vast majority of companies dry hiring plant out are either unaware of the policy conditions regarding subrogation (some of which would not be obvious to the untrained) or choose to ignore them and offer damage waivers – charging the hirers for such waivers. There is a high probability that this charge could be considered to be a premium – particularly as some of the damage waivers use the word “insurance”. If so, then there are four major areas of concern:-

1. The company concerned is acting as an insurer without being licensed to do so.
2. Stamp Duty is not collected and forwarded to the relevant State authorities as prescribed in the various Acts.
3. The insurance company may determine in the event of a loss that:
  - (a) The insured collected a “premium” for insurance on the particular unit so became the insurer of that unit; or
  - (b) The insured agreed to a damage waiver, which interfered with the Insurer's subrogation rights, thus contravening policy conditions.
4. Most hirers believe that they are purchasing full insurance on plant when this may very well not be the case. Damage waivers generally offer only limited cover and, for the reasons in 3 above, there may be no cover at all. Clearly this constitutes misleading or deceptive practices under the Trade Practices Act.

Under the new Lumley/Cemac wording effective from October 1997 standard Dry Hire, as described above, is an integral part of the policy (i.e. not just an option which can be taken at extra premium). In addition to this, however, the Extended Dry Hire (EDH) option is now available. It works in the following manner:-

The insured chooses the option (either for selected items or the whole schedule) and pays the additional premium. In doing so it is recognised that part of the premium has been paid in advance on behalf of potential hirers and that the insured can recover, at the time of hire, an amount sufficient to reimburse this advance payment from those hirers who elect to take out cover. These hirers are thus, effectively, joint insureds under the policy with respect to the item hired and for the period of the hire agreement.

The result of this system is that the premium (with stamp duty) is prepaid to a licensed insurer; the Insurer is fully aware that cover is being extended to include hirers and it is full cover as per the terms and conditions of the Insured's policy. We have thus overcome the four problem areas mentioned above.

**The major benefits are:**

**Insured:-**

1. Able to ensure that casual hirers have adequate insurance and, at the time of loss, will not be confronted with, "I couldn't get short-term insurance and I can't afford to pay for the loss".
2. A relatively small initial outlay allows them to recoup a large part of their total insurance costs without breaching any laws or policy conditions.
3. The flexibility to allow certain customers to accept responsibility for the hired plant.

**Hirers (customers):-**

1. The ability to obtain short-term insurance (as short as one day) at reasonable premium.
2. The knowledge that the insurance is correct for the type of plant hired.
3. The choice (generally for longer-term hires) to take the cover offered or arrange alternative cover through their own broker/insurer.