

# **Irrigation Price Review Submission**

## **Appendix E**

### **Marsh: Report on insurance market**

Public  
27 March 2019

## SUNWATER

### MARKET COMMENTARY

With the ever changing insurance market it is difficult to predict what Insurers will do in the future. The Insurance market goes in cycles as illustrated below and it is Marsh's option that we are now into a hard market.



### Property

Since 2011, the insurance industry has suffered a number of significant property losses.

- Brisbane Floods - \$5B
- Cyclone Debbie - \$2B
- Super Storm Sandy - \$30B
- USA Hurricanes, Harvey, Irma and Maria - \$110B
- New Zealand earthquakes
- Earthquake in Mexico
- US Bushfires

Most global carriers are reacting to the above catastrophes (CAT) in a measured and cautious manner. Markets remain well capitalised and continue to function fully and freely. It is our view that Insurers will continue to provide capacity.

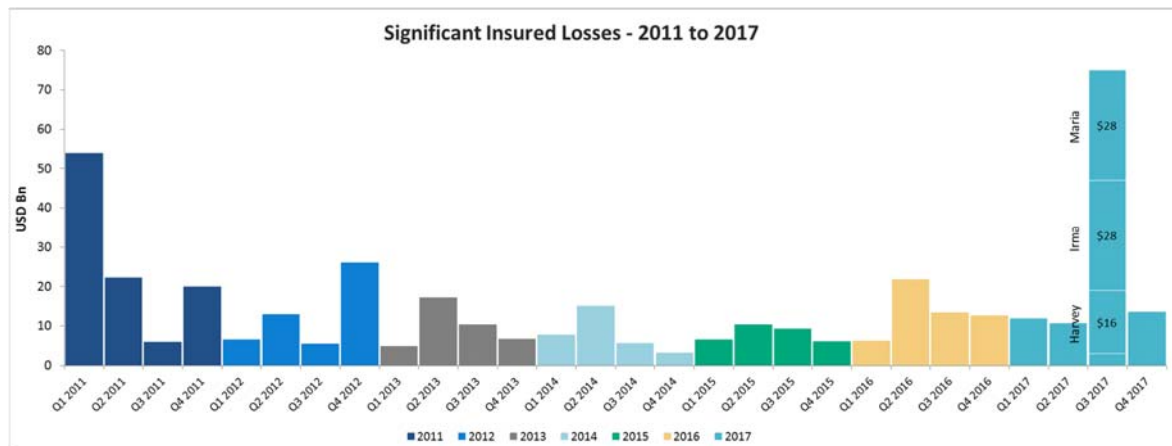
Deductibles and rates are coming under scrutiny as Insurers evaluate their books. Most insurers have expressed concern about the current level of rates in the market and the ability of the overall

The information contained in this document and any attachments is confidential, may be privileged, and is intended for the use of the individual or entity named above. If you, the reader of this message, are not the intended recipient, the agent, or employee responsible for delivering this document and any attachments to the intended recipient, you are expressly prohibited from copying, disseminating, distributing or in any other way using any of the information in this document and any attachments. If this communication contains personal information we expect you to treat that information in accordance with the Australian Privacy Act 1988 (Cth) or equivalent. You must advise us if you cannot comply.

market to continue without some level of rate increase. Insurers have also expressed their concern regarding the potential impact of reinsurance costs.

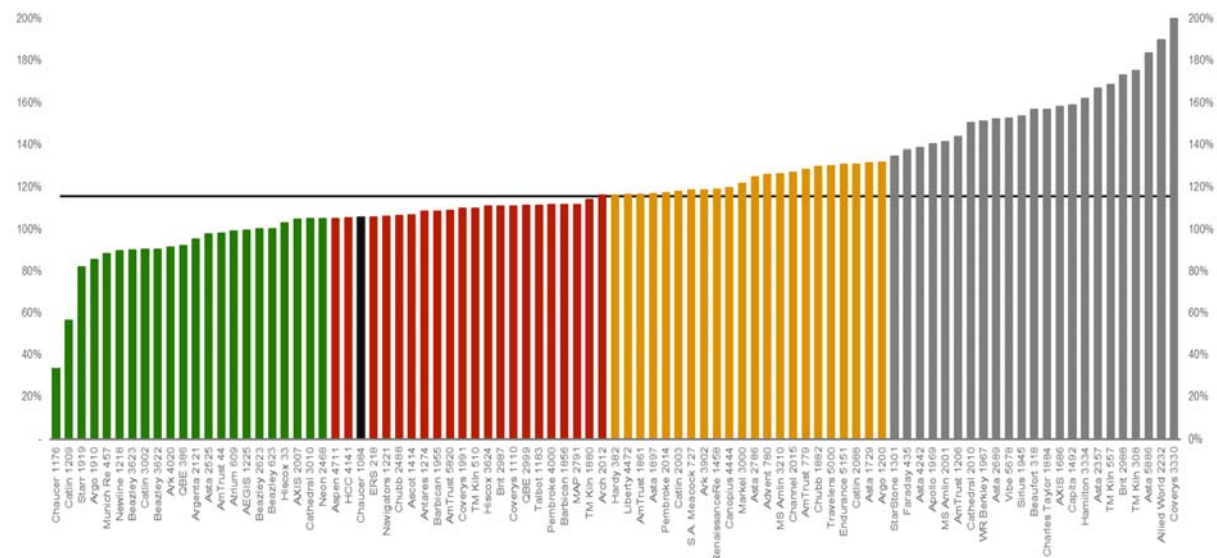
CAT modelling, engineering analysis, a positive approach to risk management and good loss record are all key points to Insurers in relation to releasing capacity at competitive terms and conditions. Reductions should not be anticipated - results in the last quarter have seen rate increases of 10% to 20% for 'clean' accounts and correction is the order of the day, with a number of large double digit increases due to industry segment, loss record or catastrophe exposure. Some insurers are also considering restricting or limiting for coverage for natural catastrophe ie Flood, Cyclone.

The graph below illustrates the global losses since 2011.

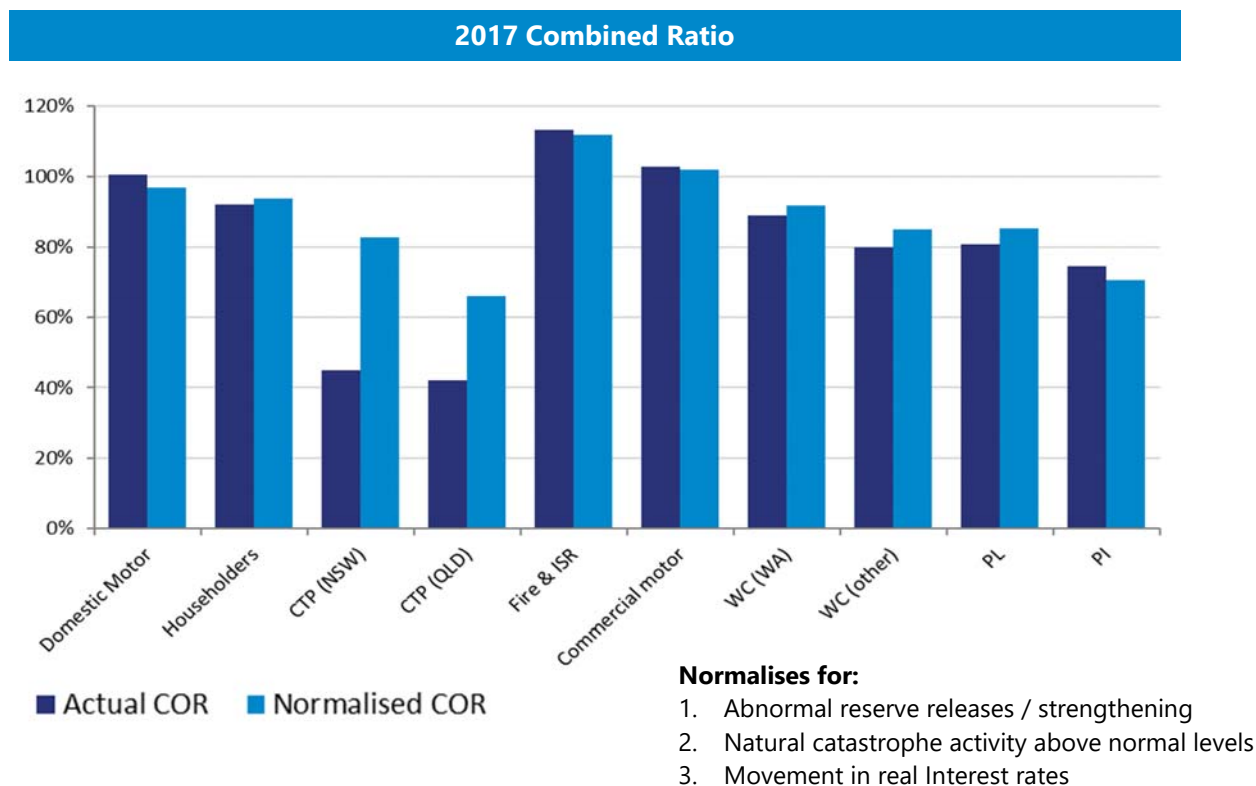


2017 loss estimates currently total USD111 million; Q3 and Q4 losses such as Harvey, Irma, Maria, Mexico EQ and CA wildfires are preliminary estimates subject to significant uncertainty

The graph below is the Lloyds syndicates combined loss ratios for 2017. A number of these syndicates currently participate on the Sunwater program.



In 2017 the Australian Insurers combined loss ratio for the property book of business exceeded 100% as demonstrated in the graph below. Ie for every \$100 received insurers are paying out \$115.



## Liability

Pricing in the casualty market generally remains competitive and insurers are prepared to compete aggressively for well managed accounts. However, Insurers are closely monitoring poor performing risk and are looking to increase premiums and deductibles to return them back to a profitable position.

We believe it is unlikely that the effects of the reinsurance costs will have an impact on the Primary layer. With respect to the Excess layers even though we will be aiming for rollover premiums at the worst, some Insurers may try to pass on the increase in cost of reinsurance.

## Financial Lines

The Directors' and Officers' Liability market continues to experience hardening conditions off the back of unsustainable pricing, and significant increase in new securities class actions claims. The ripple effect has been the average increases of a minimum of 50-80%.

All major insurers continue to be represented but are now seeking to be frugal in terms of capacity in the face of reduced margins, with most restricting capacity for Entity Cover (Side C) to a maximum line size of \$10,000,000.

Crime insurers are now limiting cover on Social Engineering due to increased claims. Also additional premium is being charged for this cover with retention levels being reviewed and increased.

Cyber is stable, however with the next renewal cycle we may start to see increases and reduction in capacity due to the mandatory reporting which at this stage is a relatively unknown with what impact that this will have on the risk.

## **EFFECTS ON SUNWATER PROPERTY PROGRAM**

The 2 biggest spends for Sunwater is the ISR and Liability programs.

Since 2010 :

1. the premiums (excluding charges) for both of these policies has been \$55m against claims of \$79m (excluding legal costs associated with class action).
2. assets have increased from \$7.5b to \$13.9b (185.34%). The most significant increase was in 2016 when Sunwater assets increased by \$3.3b following updated valuations. Insurers normally except updated valuations every 5 years.

## *ISR*

The flood events of 2011 and 2013 had a significant impact on the pricing of these policies.

2012 has the 1<sup>st</sup> significant increase in the premium rate by 51.32%. then in 2013 a number of Australian ISR insurers either declined to participate or reduced their capacity significantly resulting in a need to approach the London market. It was feared that the potential loss estimate at the time could have been \$220m for both events. QBE London was the only insurer prepared to offer lead terms which resulted in a 94% rate increase.

In 2014 the strategy was to bring as much of the program back to Australia as more capacity was becoming available and premiums start to reduce. This was achieved when FM Global came onto the program and since then the premium rate had reduced until 2018 as demonstrated in the graph on the following page.

Benchmarking provide by Marsh earlier this year, showed that the majority of the Water companies self-insured Business Interruption. Sunwater undertook a review of their major customer contracts which revealed that it would be highly unlikely that Sunwater would suffer a business interruption loss. Therefore Sunwater made the decision this year to self-insure Business Interruption.

Sunwater has also commenced a review of their risk appetite as another means of reducing Insurance costs. Marsh is assisting by undertaking Risk Financing Optimisation exercise which will assess the cost benefit to Sunwater of insurance versus self-insurance. This exercise should be completed by the end of November 2018.

The table below demonstrates the impact of the premium rates as a result of not only Sunwater's losses but also the losses suffered locally and globally. The 18/19 increase was as a direct result of the local and global losses suffered, not only by the direct insurance market but also the reinsurance market.

Policy Period	Declared Asset Values	% Change	Base Premium	Average Premium Rate	% Change in Rate Year on Year	Claims History
2010 to 2011	\$7,537,673,608		\$2,499,788	0.0325%		\$30,021,728
2011 to 2012	\$7,902,097,480	+4.84%	\$3,302,776	0.0374%	+11.50%	\$0
2012 to 2013	\$8,366,014,710	+5.87%	\$4,810,458	0.0575%	+51.32%	\$13,196
2013 to 2014	\$8,922,528,321	+6.66%	\$9,957,075	0.1116%	+94.09%	\$49,101,504
2014 to 2015	\$9,803,216,241	+9.87%	\$6,203,954	0.062%	-56.25%	\$0
2015 to 2016	\$10,061,765,473	+2.64%	\$5,307,536	0.0528%	-15.00%	\$0
2016 to 2017	\$13,345,805,277	+32.64%	\$5,754,401	0.0432%	-18.18%	\$0
2017 to 2018	\$13,933,006,998	+4.39%	\$5,764,423	0.0413%	-4.398%	\$0
2018 to 2019	\$13,409,641,487	-4.15%	\$6,011,373	0.445%	+7.75%	\$0

### Liability

Traditionally the Liability program has been placed in London.

Up until 2013 the Liability premium had remained stable. It was not until the "Class Action" for the 2011 Flood event started to progress that we saw the premium start to increase. In 2013 the premium increase by \$211k (↑ 20.04%). The increase in premium for 2017/18 was as a result on increased coverage.

Policy Period	Claims	Premium	Year on Year Variance
2010 to 2011	xx <sup>1</sup>	1,053,000	
2011 to 2012	0	1,053,000	0
2012 to 2013	\$1,056,659	\$1,053,000	0
2013 to 2014	\$20,000	\$1,264,000	+20.04%
2014 to 2015	0	\$1,264,000	0
2015 to 2016	0	\$1,237,000	-2.13%
2016 to 2017	0	\$1,381,000	+11.65%
2017 to 2018	0	\$1,421,900	+2.90%
2018 to 2019	0	\$1,146,900	-19.34%

<sup>1</sup> to date costs incurred in relation to the class action have related to legal costs

It was not until the 2018/2019 renewal that we saw competition from the Australian market, whereby the primary layer reduced by \$290k (↓19.34%). Despite the reduction the pricing is still above that of 2011.

## **LOOKING FORWARD**

Marsh anticipates that premiums for both the ISR and Liability policies would continue to rise until such time as the insurance and reinsurance markets loss ratio falls well below 100%. The impact of the most recent events ie the hurricane in the US and the typhoon which struck HongKong, the costs of these are yet to be determined.