

SECTOR COMMENT

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Property & Casualty Insurers – Australia

Bushfire insured losses will mount, but remain manageable

Australia's bushfires, which have been ongoing since September 2019, have caused the tragic loss of life and devastation of towns and communities across regional Australia. Insured losses will continue to mount over the coming months as claims are lodged and damage assessments are completed. The insured losses of these natural catastrophes will be negative for profits of the Australian property and casualty insurance industry. However, we expect the losses to be manageable because of the industry's strong underwriting performance, high level of reserve adequacy and capital, and strong reinsurance protection. Nonetheless, these catastrophic events highlight that the property and casualty insurance industry is at the forefront of environmental risk.

As of 7 January, the Insurance Council of Australia (“ICA”), the representative body of the general insurance industry in Australia, said that insurers had received 8,985 claims since September from the Australian states of New South Wales, Victoria, Queensland and South Australia. Many more claims are expected to be lodged in coming days and weeks. Insurance losses are estimated by the ICA to be AUD700 million.

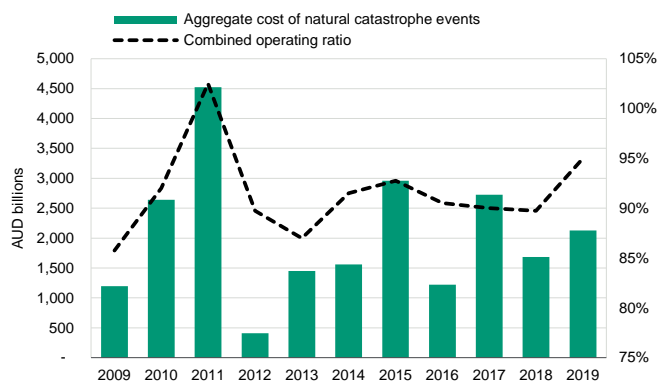
We expect Suncorp Group, through its subsidiary [AAI Limited](#) (financial strength A1 stable)¹ and Insurance Australia Group Limited are likely to have the highest levels of gross claims because of their significant market share in home and motor insurance. However, we expect [QBE Insurance Group Limited](#) (financial strength A1 stable) and international insurers with large Australian operations, namely [Allianz SE](#) (financial strength Aa3 stable) and [Zurich Insurance Company Limited](#) (financial strength Aa3 stable), will be adversely impacted through higher natural perils costs as a result of the bushfires. To date, Insurance Australia Group is the only large domestic insurer to have provided a market update. On 3 January Insurance Australia Group stated that it estimates its natural perils claims as at 31 December 2019 (first-half fiscal 2020) to be around AUD400 million, post quota share arrangements. It also stated that bushfire events are anticipated to contribute more than AUD160 million in net claims costs post quota share for first-half fiscal 2020.

We expect claims costs to continue rising, which will dampen the sector's profit for the fiscal year ending 30 June 2020 (fiscal 2020). However the costs are likely to be manageable. The industry has a long history of strong underwriting discipline, which has seen it consistently report a combined operating ratio below 100% in all of the last 10 years, with the exception of 2011 (Exhibit 1). In 2011, the industry's combined ratio was 103% and natural catastrophe losses were about AUD4.5 billion when it suffered three large loss events: Cyclone Yasi (AUD1.5 billion), the Brisbane floods (AUD1.5 billion) and the Melbourne hailstorm (AUD729 million).

Furthermore, final losses from these bushfires are unlikely to be significantly greater than those of previous natural catastrophe events (Exhibit 2).

Exhibit 1

Underwriting profit remains resilient in the face of high natural claims costs



2019 combined operating ratio is for the nine months to September

Sources: Insurance Council of Australia and Australian Prudential Regulation Authority

Exhibit 2

Bushfire costs unlikely to be significantly higher than other catastrophe events

Losses for categorised natural catastrophe events

Year	Event	Losses (AUDm)
2007	East Coast Low	2,197
2017	Cyclone Debbie	1,782
2009	Black Saturday Bushfire	1,758
2010	Melbourne Storm	1,626
2014	Brisbane Hailstorm	1,535
2011	Brisbane Flooding	1,527
2011	Cyclone Yasi	1,479
2018	NSW Hailstorm	1,358
2010	Perth Storm	1,345
2019	FNQ Monsoonal Flood	1,268
2013	QLD Flooding Ex Cyclone Oswald	1,131
2015	East Coast Low	1,060
2011	Melbourne Xmas Day Hailstorm	988
2003	Canberra Bushfire	839
2011	Melbourne Severe Storm	712

Loss amounts for events before 2017 have been inflation adjusted to 2017 cost equivalent
Source: Insurance Council of Australia

The current bushfires highlight that the property and casualty insurance industry is at the forefront of environmental risk. The industry is exposed to the economic consequences of climate change, primarily through the unpredictable effect of climate change on the frequency and severity of weather-related catastrophic events, such as hurricanes, floods, convective storms, drought and wildfires.

In our [environmental risk heat map](#), we assess property and casualty insurers and reinsurers as having a moderate exposure to environmental risks. Insurers are in the business of assessing, pricing and managing risks stemming from natural and man-made disasters. As such, they closely monitor the potential impact of climate change on the frequency and severity of catastrophic disasters. Historical catastrophes have demonstrated that actual losses may differ materially from anticipated (modelled) losses as a result of the limitations of risk models and the assumption parameters used. While the ability of insurers to generally reprice insurance policies on an annual basis somewhat mitigates this risk, the increasing incidence of catastrophe losses linked to climate change creates additional underwriting and risk management complexity.

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Endnotes

- 1 The ratings shown here are the company's Insurance Financial Strength Rating and outlook.

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