

# ARE FURTHER INSURANCE PREMIUM HIKES INEVITABLE?

- By BCB
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Weather events have been the greatest contributor to rising strata insurance premiums. While Queensland is seeing some relief from premium hikes thanks to the Cyclone Reinsurance Pool (CRP), many strata schemes are still seeing significant increases.

The world's weather is changing. It seems to have more 'energy'. Whether you believe the cause is man-made climate change or naturally occurring events, recent disasters have certainly felt more unnatural than natural.

Cyclones, hurricanes, and typhoons are more ferocious.

Flooding from excessive rainfall and storms is more than just inundation – entire towns and villages are wiped out.

And in the Northern Hemisphere, summer wildfires have raged out of control, with their menace recently felt in Hawaii, Canada and Greece.

## **The world of insurance and reinsurance**

*Insurers are less willing to insure buildings with known defects or issues.*

*Having a plan that addresses an insurer's requirements well ahead of a policy renewal date improves the likelihood of reasonable renewal terms.*

Apart from government assistance, insurance is the greatest contributor to rebuilding after natural disasters.

Strata insurers are part of a bigger and more involved system of insurance, with many layers that ultimately end with global insurers and reinsurers.

Behind every insurance company is reinsurance for natural disasters. Offering insurance protection for insurance companies, reinsurers help fund massive losses, like catastrophes, that are beyond their financial capability.

The ongoing extreme weather events have dramatically increased reinsurance costs for insurers and they're passing these costs onto customers through higher premiums.

- On standard risk properties (no/minimal claims and no outstanding building defects or construction issues), premiums have increased an average of 20% nationally.
- For flood/storm-affected regions, premium increases average around 40%.

### **Risk transfer is a balancing act**

Insurance is the transfer of risk for payment. The amount depends on the value of the risk and risk factors.

**The more likely an event might occur, the higher the risk, and the higher the premium.**

*The 2022 NSW / Queensland floods and storms nearly tripled insurer's costs.*

*242,000 claims and nearly \$6bn paid out in claims made it one of the costliest events in Australian history.*

As the Southern Hemisphere now prepares for a long, hot, dry summer, north of the equator they prepare for dynamic weather patterns. This year's El Niño will likely set new heat records, energise rainfall in South America, fuel drought in Africa and disrupt the global economy.

More risk is being imposed on insurers and reinsurers and their exposure has never been greater.

Insurers are using excesses to manage premium increases and minimise administration for claims that fall under the excess amount. \$2,000 is now a typical general excess. Properties with large sums insured often attract even higher excesses, and some schemes voluntarily seek higher excesses for more favourable premiums.

### **There's work to be done**

Australia's new CRP is backed by a \$10bn Government guarantee. It allows insurance companies to transfer their risk for cyclones and cyclone-related flood damage to the CRP.

Participation is mandatory for general insurers with eligible policies. It's funded by charging reinsurance premiums to insurers that are consistent with the expected claims and operating expenses. It's expected to be cost-neutral to the Government over the long term while reducing insurance premiums for properties in cyclone-prone areas.

### **The importance of regular valuations**

Despite rising premiums, owners must still insure their property for full replacement value and keep building valuations up to date. It reassures underwriters they're getting adequate premiums to fund their losses and avoids additional increases to compensate for perceived underinsurance.

Recent hikes in labour and materials costs pose a serious risk of underinsurance for strata schemes, and owners would be jointly responsible for any shortfall if a major claim occurred.

The importance of having a suitable insurance policy with adequate insurable limits, such as the building sum insured, should not be underestimated.