

# Storms to blow out home insurance bills

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**Insurance payouts on catastrophes since 2016**

Catastrophe	Insured losses	Date
Cyclone Debbie	Estimated in excess of \$1 billion	Mar 2017
Sydney hailstorms	\$401m	Feb 2017
NSW bushfires near Dunedoo	\$20m	Feb 2017
Mildura, South Australia, NSW hailstorm	\$272m	Nov 2016
NSW central west flooding	\$5m	Sep 2016
East coast low	\$422m	Jun 2016
WA Yarloop bushfire	\$71m	Jan 2016

Damage from Insurance Council declared catastrophes since start of 2016  
Total weather-related insured losses since start of 2016 (including non-catastrophes) = \$1.27 billion

**Pressure builds on home insurance prices**



The fallout from Cyclone Debbie and a string of other natural disasters over the past year will force the insurance industry to ratchet up the cost of insuring a house.

It follows the first price increase for home and contents policies since 2013, with a 5 per cent rise over the March quarter compared to the prior year, according to a "shop around" survey by Morgan Stanley.

The price increases mark an end to years of downward pressure on insurance premiums, as ultra-low global interest rates sparked a flood of investment into new digital disrupter insurers that brought with them a policy price war.

"This is the first time our home premium index has been in positive territory since December 2013," Morgan Stanley analyst Daniel Toohey said. "Pricing momentum likely continues following the Sydney hailstorm and Cyclone Debbie."

The price moves come as the insurance industry appears in Sydney this morning for a Senate hearing into the industry to explain the surging cost of home, strata and car insurance over the past decade compared to sluggish wage growth. Insurers, including IAG, Suncorp and QBE, are likely to continue pressuring senators to adopt a recommendation to increase mitigation costs, which have been shown to save billions of dollars a year.

Before Cyclone Debbie's estimated total \$1 billion of insured damages, the industry had already racked up a wild weather damage bill of at least \$1.27bn from a string of natural disasters since the start of last year.

With eight catastrophes declared by the Insurance Council of Australia during that period, customers are now likely to face higher premiums as the cost of repairs surge and as companies turn their back on years of price competition.

Widespread damage often drives the cost of replacement housing materials higher as demand spikes, while labour costs also soar as tradies are inundated with work at a time when the market is already squeezed because of the housing construction boom.

CLSA analyst Jan van der Schalk said insurance premiums were likely to increase "but not by a whole lot and it depends on which class" of cover.

Mr van der Schalk said home and motor policies were likely to rise by about 5 per cent in areas affected by Cyclone Debbie and 3 per cent elsewhere. Commercial insurance premiums in cycloneaffected regions would probably rise 15-20 per cent.

"Remember, a lot of the flood cover is now too expensive for many and, hence, they didn't take it out," Mr van der Schalk said.

Morgan Stanley said claims surging in the wake of Cyclone Debbie may present a profitability challenge for IAG and Suncorp, but the companies' reinsurance would probably absorb much of the cost.

But CLSA said this could flow through to customers if reinsurance bills were also increased.

"Insurers have, in the case of personal lines, something of a balancing act — you can't go out there and screw your client base — the best excuse is, of course, rising reinsurance costs, but I can't see this having too much of an impact," Mr van der Schalk said.

On top of Cyclone Debbie, which has created a damages bill of \$660 million so far from 41,000 claims across Queensland and northern NSW, Australia has been pounded by bad weather events over the past 18 months, including several hailstorms, bushfires and floods.

QBE has received about 3500 claims from Cyclone Debbie, while Suncorp has received 14,000 claims. "We believe the best way to reduce premiums in a sustainable, long-term way is through mitigation," a QBE spokeswoman said.

Australia's biggest insurers are urging the government to revisit plans to dramatically increase natural disaster prevention spending, which the Productivity Commission believes will save billions of dollars in post-catastrophe clean-ups.

"Lowering the risk also flows through to the price households and businesses pay for their insurance," Insurance Council chief executive Rob Whelan said.

"The construction of a flood levee in 2014 in the Queensland town of Roma resulted in insurance premiums falling more than 80 per cent for some residents living in high-risk areas"

Currently, 97 per cent of disaster funding is spent on recovery and only 3 per cent on mitigation. This year, the Australian Prudential Regulation Authority for the first time said climate change represented a risk to the financial system, and said company directors should disclose risks their businesses faced.