

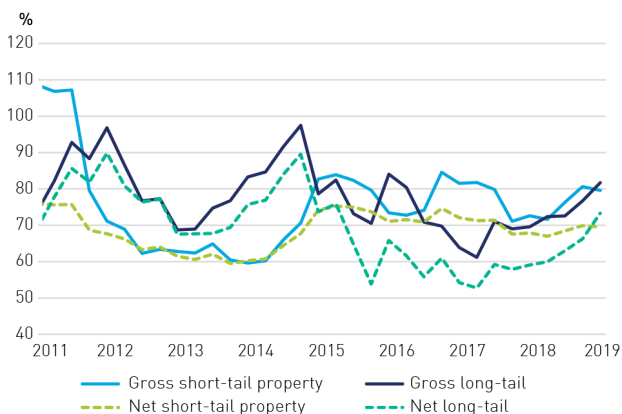
INSURANCE *landscape*

Outlook for 2020/21

As a client I thought you may like to receive a summary of our market assessment on what's currently impacting insurance pricing in the Australian market.

The recently released APRA (Australian Prudential Regulation Authority) 2019 year in review report showed insurance company loss ratios continuing to increase, the chart below is at July 1 2019. Since then we have seen a sequence of severe weather-related catastrophes impacting many communities across Australia.

General insurers' loss ratios



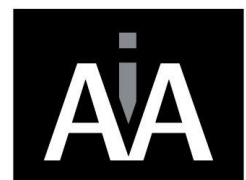
Equivalent loss ratio data not available prior to 1 July 2010 due to a change in reporting framework



Key Market Observations Include

- Loss Ratios continuing a deteriorating trend
- Personal Lines (Home and Motor) rate increases of 4% - 6% were experienced
- Commercial Motor rate increases (+ 6% - 10%) depending on claims experience
- Business Package, Commercial Insurance (+ 6 - 8%) average rate increases
- Property Insurance has seen reduced capacity for occupations with high expanded polystyrene (EPS) and recycling activities, high likelihood of weather event locations or occupations with poor claims experience. This has seen rate increases, on average, of 12% or more.

Of course, there are other market forces at play, some of which are outlined below. Collectively, they mean there can be little doubt general insurance rates will continue in an upward direction, just as they have done for the last few years.



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Low Interest Rates

A sustained period of low interest rates has had significant impact on insurers' results.

When interest rates are falling, Liability class (e.g. Public Liability, Professional Indemnity and Directors and Officers) reserves need to be 'topped up'.

Insurers appropriately have the majority of their claims reserves held in low interest-bearing finance facilities. However as return on investments continues to decline in this ultra-low interest rate environment, insurers are adopting a more disciplined approach to underwriting



Looking to the Future

After weighing up all the factors we believe insurance prices will continue to rise in 2020/21 in a similar pattern as we have witnessed over the last year. The Insurance Industry is hovering around 8 to 10 O'clock on the Insurance Clock, pictured below.

In summary, it's crucial we work together to where possible maintain policy terms and conditions even though prices are on an upward trajectory. Ensuring you have the right policies in place when a claim occurs



AU\$

The AU\$ has fallen from US80cents-US\$1 in July 2017 to now hovering around US65cents (3 March 2020). This has seen the continuation of claims cost inflation being higher than the general rate of inflation across the Australian economy. The impact has been particularly noticeable in repair costs of motor vehicles that rely on imported replacement parts and any building materials or equipment imported as part of claims settlement.

