

### A Perspective On Premium Increases



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You have no doubt read and seen numerous media reports over recent months on the state of the insurance industry. The quoted reasons vary enormously depending on whom you listen to and, in my opinion, the actual position is somewhere in the middle of the maze.

Whatever the accurate reason, it is a fact that insurers and reinsurers have had to carefully assess their financial position and to take dramatic steps to improve their overall profitability if they are to remain viable. Failure to do so would have almost certainly sent others along the HIH path to destruction.

Catholic Church Insurances has sought to remove itself from the mainstream industry and therefore from market forces but we are only able to do so to a limited extent. Our reliance on the reinsurance market will always ensure that we are influenced, to some extent at least, by general developments and trends in the broad industry.

While Catholic Church Insurances can take some consolation that we continue to provide insurance protection to *all* sections of the Church and that we have not withdrawn insurance cover for any of our clients, I regret that we have now found it necessary to impose significant premium increases on our clients, especially in the area of Public Liability insurance.

There are many reasons why this has occurred. From the industry's point of view:

- fierce competition in the industry forced prices to unsustainable levels during the mid to late 1990's. This certainly contributed to the collapse of HIH/FAI and meant that insurers and reinsurers became unprofitable over many years
- all insurers rely on investment income to "balance their books". Most do not make a positive return from their insurance operations alone and hence adequate income from investments is critical. The depressed investment market in recent years has not produced sufficient returns to offset losses in the insurance operations
- the demise of 4 Australian owned reinsurers means that the industry is now reliant on overseas owned reinsurers who have a broader global perspective on writing business. This means that the local market is less insulated from overseas trends and demands
- there are now only 3 global reinsurers with AAA rated security and access to their capital comes at a price. It is important to buy reinsurance support with the strongest security available especially with liability classes of reinsurance (so called "long tail" business)
- from 1 July 2002, all Australian insurers have had to apply for re-licensing under the new APRA rules. The minimum capital requirements have increased by 50%. Insurers are now trying to correct their previously low returns on equity with the effect that rates have increased dramatically and insurers have become considerably more selective in the business they choose to underwrite

- there is less emphasis in Australia than in (for example) the USA and UK on effective risk management programs so that the incidence of losses in terms of both number [frequency] and size [severity] has not been managed to the same extent that it might have been
- in our litigious society, liability settlements and court awards continue to escalate and have reached a point of crisis, which has been well published
- in some sections of business, changes in legislation have compounded an existing problem or at best, attempts by legislative amendment to correct trends have not achieved their desired outcomes.

Not all these matters have a significant effect on Catholic Church Insurances' business however our portfolio is not quarantined from any of them. Over the past 12 to 24 months, we have experienced trends which in some cases are restricted solely to our business:

- common to others in the industry, our investment returns have been poor and have not supported the underwriting operations to previous levels. Despite this, our returns continue to be well above insurance industry and funds managers averages
- we have experienced a significant increase in the cost of reinsurance and a restriction in the capacity available especially from well rated reinsurers
- we are now unable to purchase reinsurance protection down to the previously available levels. This means that we must retain more claims to our own account rather than pass them to reinsurers
- there has been a continued deterioration in our long tail classes of business (public liability especially in schools and medical malpractice)
- a new legislative environment in NSW in respect of workers' compensation business has led to a substantial development in the number of claims reported in the short term. The Workers' Compensation Authority expects that this will have long term savings in the cost of claims; we are not so optimistic and
- there has been an increase in the number of reported Special Issues matters in the Church following recent publicity.

While the final figures of Catholic Church Insurances for the financial year to the end of June 2002 are not yet available, indications are that this year will be the worst in our company's 91 year history and necessitates that we make tough decisions. In our deliberations regarding premium increases, we have carefully considered our special relationship with the Church and our responsibility and commitment to provide security and protection to all Church organisations.

We have aimed for a balance between market forces, the relativities of the risks within the Church community and maintaining affordability. While the increases are substantial, they represent the minimum increases taking into account all the circumstances.

Catholic Church Insurances is unique in the level of protection we provide to the Church and I would like to restate our commitment to you to provide this ongoing security to the Catholic community. I do not make this undertaking lightly; this is a difficult period for the insurance industry and for this company. Our plan is to maintain our current level of security for the Church. In turn, I seek your support of and trust in Catholic Church Insurances which I believe has served your community well and will continue to do so.

We have also made a firm commitment to improve the level of management of risks within the Church. The answer to an increasing number and size of claims especially in the liability sections of our business rests with risk management.

If you have any queries regarding the premium increases, please call your State Manager on 1800 011 028.

As always, we are here to serve Church.

Yours sincerely,



Peter Rush

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