

IMIA 2007 Country Analysis

Country	Premium development	Claims development	Underwriting Profitability	Business Outlook
<p>Australia 2007</p>	<p>Despite the buoyant construction activity, the premium statistics collected for the 2007 year show aggregate premium growth of only 4.0% over 2006. Construction premiums decreased 18% from 2006 while at the same time benefiting from an increase in contract values and the significant contribution of several major infrastructure projects. Machinery breakdown premiums have grown across the last 12 months however this is more than likely from the growth in power assets and the increased costs associated with plant and equipment, not through organic growth.</p>	<p>It was inevitable that with continued downward pressure on pricing, increased material and labour costs and a couple of major weather events that the overall profitability of the construction and engineering portfolios would be impacted. The numbers below speak for themselves and each class's claims performance has deteriorated dramatically across the last 12 months especially for MB/MLoP and CAR/EAR.</p>	<p>The decrease in premiums as a result of competitive forces and the low point in the market cycle accompanied by an increase in claims costs has a double impact on the overall performance of the CAR and EAR portfolios. At the end of December market pricing, particularly in the small medium contractor market is now tracking at its historical lowest ebb and there is currently no evidence of correction. This has been further exacerbated by the continued consolidation of brokers, the change in broker placement services away from construction specialists and significant accumulated profits and reserves allows perceived room to reduce prices. The end result is that the Australian market's premium income does not adequately reflect the buoyant economic environment.</p>	<p>Construction Outlook survey reveals that the total value of engineering and commercial construction work is forecast to increase by 12.5% in 2008, with particular strength expected in infrastructure and mining-based activity.</p> <p>Solid rises are also expected in telecommunications infrastructure and pipelines.</p> <p>While specific industry statistics are unavailable there has been no discernable change in premium and claims performance during the first half of 2008 and we continue to see significant weather events impacting aggregate industry performance.</p>