

## Country Analysis Report – Australia

Country	Premium Development	Claims Development	Underwriting Profitability	Business Outlook
<p><b>Australia 2011</b></p>	<p><b>Machinery and Machinery Loss of Profits:</b>            Premiums in this segment have remained relatively static over the last 3 years. Growth continues to be constrained by the move away from stand alone machinery coverage to inclusion of Machinery / Boiler into SME package policies or incorporated into Property / ISR programs on a sub limited basis.</p> <p><b>CAR</b>            Construction premiums have stabilised as the government stimulus program focussed heavily on construction in the education segment has drawn. Commercial and Industrial construction activity is very subdued and has experienced 25 consecutive negative months. The premium pool has however been maintained by continued and significant investment in the mining and resources segment and its associated infrastructure, roads, rail and ports.</p> <p><b>EAR / ALOP</b>            EAR and ALOP premiums have returned to pre GFC levels after spiking in 2009 in support of several large Iron Ore and LNG projects. The majority of insurance related to new project activity in these segments is now placed with London based, Japanese and captive insurers construction and does not appear in local market statistics.</p> <p><b>Electronic Equipment</b>            Continues as relatively small segment with the majority of coverage typically incorporated within SME Package policies or alternatively as sub limits within Commercial Property programs.</p>	<p><b>Machinery and Machinery Loss of Profits:</b>            The loss ratio into 2011 has deteriorated significantly.            Performance includes three large Machinery losses \$1.3M, \$1.9M and \$4.6M respectively however would appear that underlying losses i.e. less than \$1M have deteriorated by a further 20% over the prior corresponding period. The lack of granular market data unfortunately does not provide an explanation for the deterioration.</p> <p><b>CAR /EAR /ALOP</b>            Construction, EAR and ALOP loss ratios deteriorated significantly in 2011 as a direct result of the significant natural hazard events – flood, cyclone and storm detailed above. There were 8 reported flood losses totalling \$60 million and 4 cyclone/ storm losses totalling \$5.2 million representing 25% of all losses across the year. There was also an additional 6 non natural hazard losses totalling \$20.7 million across the 12 months. Working losses continue to contribute the remaining 30 – 35% of construction losses.</p> <p><b>Catastrophes / Disasters</b>            Australia experienced 5 major events natural peril events during the course of 2011 including:</p> <ul style="list-style-type: none"> <li>• Queensland Floods January \$2.4 billion</li> <li>• Victorian Floods January \$123 million</li> <li>• Cyclone Yasi February \$1.4 billion</li> <li>• Victorian Storms February \$420 million</li> <li>• Victorian Storms December \$680 million</li> </ul>	<p><b>Overview</b>            2011 was a tumultuous year for Australia with significant flood, cyclone and storm events wreaking havoc across the nation resulting in significant insured and uninsured losses.</p> <p>While Construction &amp; Engineering premium income remained relatively static it was strongly upheld by mega resources, mining and energy, related projects. At the same time commercial and industrial construction activity continued to decline with a further 12 months on top of the 10 months of 2010 of negative sentiment.</p> <p>As detailed in Claims Development (previous column) the significant 2011 weather events led to a 50% deterioration in construction loss ratios while at the same time Machinery loss ratios also deteriorated.</p> <p>Aggregately it is estimated that Australian domiciled Construction Insurers posted a loss in excess of \$75 million dollars for the year ending December 2011.</p> <p>Furthermore it is estimated that non domiciled insurers would have losses of a similar magnitude and highlights the difficulty of truly understanding the complexity and diversity of natural perils exposures across what is a very wide continent.</p>	<p><b>Two Speed Economy</b>            Australia is very much a two speed environment both economically and from a construction perspective.</p> <p>Aggregately construction activity has contracted for the last 25 consecutive months largely attributed to subdued demand conditions and the undermining influences of low consumer confidence, tight credit conditions, project delays and uncertainty about the economic outlook.</p> <p>At the same time however a major resources boom continues and now contributes in excess of 60% of all Australian construction activity from less than 20% five years ago.</p> <p>In addition there is a significant number of mining related projects planned and underway including the likes of upgrades to rail and port facilities</p>