

# Insurers look in fine detail at flood cover

Liam Walsh

INSURERS will have to deal with multimillion-dollar fine print for their own "reinsurance" cover for recent flooding, due to the disaster's long duration and onset before the new year.

Reinsurers sell cover to insurance companies. That protection offers a buffer for cumulative events, or caps an insurance company's payout in a big disaster.

But a key issue that will affect insurers' bottom lines is whether the latest Queensland flooding is regarded as one "event" for reinsurance.

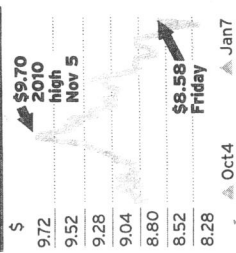
Neither Suncorp, IAG nor RACO Insurance have declared yet whether they think the disaster counts as one event. Industry sources have said reinsurance contracts can cover losses over a defined short period, although it can be extended for days in floods. That means prolonged flooding might be counted as separate events.

Other issues include triggers — such as whether the disaster officially kicks in when rain falls or when water rises from rivers into homes.

A third issue is reinsurance contracts are renewed on a calendar year for some insurers. It raises questions of whether a new event starts in 2011.

The Bureau of Meteorology

## SUNCORP



gave a warning about heavy rain and flooding on December 23 as Cyclone Tasha descended. Homes from Chinchilla in the south to central Queensland's Rockhampton have been flooded since.

Analysts at Credit Suisse last week predicted a potential impact on Suncorp of \$30 million-\$50 million.

JP Morgan analysts said it could be up to \$200 million, which is when Suncorp's big event reinsurance is triggered.

JP Morgan estimated IAG would have all losses covered by reinsurance if claims came in between \$15 million and \$50 million. Credit Suisse also estimated reinsurance would mean "zero impact" for IAG.

IAG said it had received 900 claims as of last Thursday.

"Whether this event is covered by reinsurance depends on the gross claim cost of this event which is too early to

determine," a spokeswoman said.

RACO Insurance had received almost 1000 claims. Suncorp earlier this month acknowledged 1800 claims.

It has additional protection with "aggregate" reinsurance in which the cost of large disasters accumulates.

Once they exceed \$300 million, Suncorp's exposure is limited to \$10 million for further catastrophes.

Suncorp is particularly exposed given its high profile in Queensland and decision in 2008 to automatically cover homes for flood, regardless of whether it comes from storms immediately or later from an overflowing river.

Shareholders at its annual general meeting had raised concerns about this widespread insurance. A spokeswoman last week argued Suncorp had "priced our premiums for flood cover".

Tim Andrews, a director with insurance advisers Finity Consulting, said the latest floods were unlikely to have a "significant effect" on the cost of reinsurance.

He said last year's massive storms in Melbourne and Perth had been absorbed by the reinsurance market for big events, without problems. Mr Andrews said prices had risen in reinsurance that covers a multitude of small events.

**BOGGED DOWN IN COURT:** The legal case has now churned up a thick package of 85 filings - in a battle including Nicole Perrin (right) and loans for her husband Matthew (left).



## Bulk carrier rents tumble due to deluge

THE cost of hiring larger vessels to haul coal has plunged the most in more than two years as floods in Australia disrupted shipments from the world's biggest exporter.

Rents for capsize ships fell 36 per cent for the week to \$US12,897 (\$A12,936) a day, according to the Baltic Exchange in London.

That's the biggest slide since the 57 per cent drop in the week ended October 17, 2008. The vessels carry coal and iron ore, which will make up 58 per cent of all seaborne trade in dry-bulk goods this year, according to estimates by shipbroker Clarkson.

Queensland's floods have forced coal mines to close, and BHP Billiton is among pro-

ducers that have said they may miss deliveries.

The region was losing about \$480 million a week in export revenues, analysts at Australia & New Zealand Banking Group said.

The State Government was "taking a pay cut" of about \$40 million a week in lost royalties, it said.

**Alistair Holloway**

How many words you make from the centre letter be at least one foreign words, Source: Collins

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