

Claims Trends: House & contents

- **“Claims Cost” actually refers to the cost to insurers of paying out claims, rather than the premium paid by consumers. Nevertheless, claims costs are typically the most significant component of costs an insurer will recover in its premiums.**
- **Claims Costs per policy in NSW have trended up only slightly over the past decade, punctuated by a number of weather-related spikes in costs. Since the last spike in March 2017, the claims environment has been relatively benign and NSW costs per policy have returned to their trend levels in line with or below the costs per policy in other jurisdictions.**
- **The low cost of claims in NSW compared to other jurisdictions together with minimal growth in costs per policy in real terms over the past decade shows insurers in NSW are not facing strong cost pressures which would support an increase in base premiums.**

Cost per policy is the average dollar amount in claims paid out per policy in force.¹ As these statistics are from the insurer’s point of view, “cost” actually refers to the cost to insurers of paying out claims, rather than the premium paid by consumers. Claims costs is typically the most significant component of costs an insurer will recover in its premiums.

In the context of the ESL reform, trends in claims and other costs are of interest to the Monitor as the focus is on ensuring changes in base premiums reflect increases in the cost of supplying insurance, rather than changes in the ESL. Guideline 13 of the Monitor’s Guidelines on the prohibition against price exploitation states:



The Insurance Monitor will examine the reasonableness of base premium increases where there are concerns about their coincidence with ESL changes, the size of the movements compared to normal inflationary pressures, and changes in cost or pricing methodologies.¹



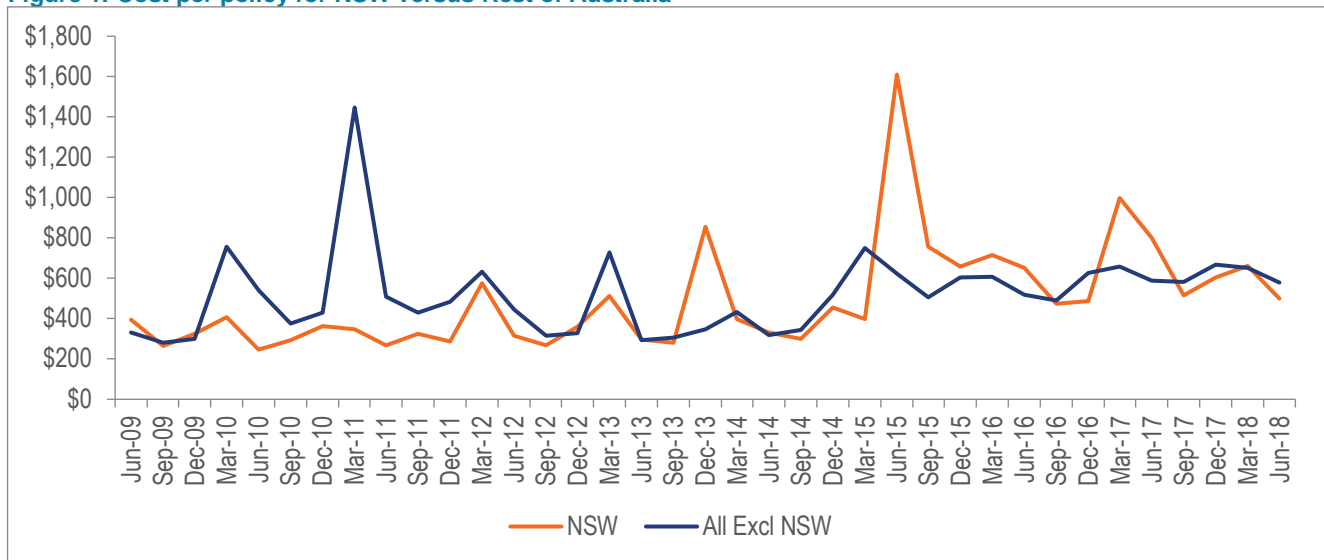
Figure 1 overleaf shows the long-term trend in the cost per policy for NSW and a weighted average for Australia, excluding NSW.

Costs per policy in NSW have trended up only slightly over the past decade, punctuated by a number of weather-related spikes in costs. The spike in the June quarter of 2015 was due to a surge in claims arising from storms and hail storms in April that year. Similarly, the spike in NSW in the March 2017 quarter was mostly due to Sydney storms in February and to a lesser extent Cyclone Debbie in March, as explained by insurers to the Monitor. Since the last spike in March 2017, the claims environment has been more benign and NSW costs per policy have returned to their trend levels in line with or below the costs per policy in other jurisdictions.

From June 2009 to June 2018, the cost per policy in NSW rose at an annual compound rate of 2.6% compared with an average rise of 6.4% in other jurisdictions. The annual compound growth in costs per policy in NSW is only just above the consumer price index in this period (2.2%) indicating minimal growth in costs per policy in NSW in real terms.

¹ Cost per policy = claims frequency x rate of average claims size. Where the claims frequency rate is the number of claims / the number of policies in force

Figure 1: Cost per policy for NSW versus Rest of Australia



Source: ISA

While costs per policy in NSW are lower than the average of the remaining jurisdictions, they are, however, somewhat more variable in NSW.

The low cost of claims in NSW compared to other jurisdictions together with minimal growth in costs per policy in real terms over the past decade shows insurers in NSW are not facing strong cost pressures which would support an increase in base premiums.