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# SLOPES - Updates - Lodge Flood Alert - JLT Insurance Program 2019

**SLOPES** <slopes.au@gmail.com> 10 January 2019 at 17:30
Bcc: frank.zipfinger@gmail.com

Dear SLOPES Members and Associates

Attached is an Update we requested of JLT covering the issues of flexible braided hoses and the upcoming 2019 Insurance Program renewal.

1. **Lodge Flood Alert**

Our email of 5 December 2018 alerted you to the recent experience of a Club late last year where a braided flexible water hose broke in the lodge and flooded the lodge causing extensive damage.

For that email go to: https://slopes.org.au/wp/wp-content/uploads/2018/12/630-Lodge-Flood-Guthega-Nov-2018.pdf

And see this article for more detail on the hoses issue: https://www.budgetdirect.com.au/blog/how-a-10-pipe-can-cause-thousands-of-dollars-of-water-damage-to-your-home.html

We have now been informed of a second such incident at the lodge of another Club which occurred on 2 January - also causing severe damage.

The JLT Update contains a specific section on flexible braided hoses. Note in particular:

> generally 1 in 5 water damage claims lodged by Australian households was caused by flexible braided hoses - estimated at 150,000 claims annually costing $722m

> flexible hoses have a limited lifespan "*and are generally most likely to burst between 5-10 years*"

> flexible hoses should be replaced every 5 years and installed only by a licensed plumber

> as a precaution turn off water mains when your lodge is not in use. For lodges long vacancy periods can mean flooding water might not be identified for days or weeks

JLT point out that our Program insurer has indicated that on this renewal in April it will apply an additional excess in relation to claims caused by flexible braided hoses.

JLT also advise "*In light of the claims of the past few years and in particular this year, it is extremely important that we can demonstrate to your incumbent and potential new markets that you are implementing measures to manage the risk.*"

As Clubs know, by 30 June 2019 under our leases we need to provide certifications in respect of gas, electricity and pests regarding our lodges.

A plumbing certificate is NOT required by NPWS under the lease provisions.

But SLOPES thinks it would be prudent - and no doubt financially beneficial - for renewal purposes (as well as peace of mind) if participating Clubs in the JLT program (and others if they wish) were to obtain a plumbing certificate ahead of the renewal negotiations in early March.

We suggest given the short time frame and our collective interests there is merit in SLOPES and JLT co-ordinating a bulk purchase inspection program to assist Clubs that want to participate.

Subject to interest SLOPES will arrange for each lodge to be inspected, hoses replaced as necessary and a certificate issued. Participation in the exercise will assist in keeping insurances premiums to a minimum and protect Clubs from the damage and disruption that can be caused by hoses failure – particularly extensive damage when lodges are unattended during summer months. We expect to be able to negotiate discounted rates on a bulk placement.

<u>If you are interested in participating please advise by return.</u>

2. **JLT Insurance Program renewal 2019**

The attached JLT Update contains information on the renewal program for 2019, background on the general insurance market conditions we are facing and early indications from our insurer as to their approach given those conditions and our claims history this past year.

Please note:

> general market conditions have turned to our disadvantage, as has our claims history this past year with 5 claims, some severe

> our current insurer has indicated the premium rate on renewal in April is going to increase

> we do not know the extent of the increase but SLOPES will be pushing JLT to do all they can to get the best result for participating Clubs

> to help ensure that in a transparent way, this year SLOPES has agreed with JLT a renewal timeline and process - see page 4 of the Update

> our best tactic is to use our combined buying power and to differentiate our risk by showing we are managing our risk eg see above re the flexible hoses issue.

We encourage Clubs in the Program to remain in it - and welcome others to join who are not in the Program.

In that regard we draw your attention to these comments from JLT:

*Naturally some clubs may look to get quotations elsewhere. There are some key factors to point out here*

- *As the current policy is purchased using the buying power of the group, placing an individual like policy will attract higher premium rates. JLT have seen individual policies placed with your current insurer and these rates are higher.*

- *The current policy has been specifically tailored to provide adequate coverage, alternative insurers may offer a cheaper premium and reduce coverage to achieve this.*

We will stay close to these issues and keep you informed.

If you have questions please contact us.

Regards

Frank Zipfinger
President
SLOPES

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**SLOPES - JLT update January 2019.pdf**
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## SLOPES Meeting 4th January 2019

- General Market Update
- Discuss Flexible Braided Hose
- Update on NSW Emergency Services Levy (ESL)
- Management Liability Facility
- Renewal Strategy and Timeline

## General Market Update

**General Property**

For many years, clients have experienced a property insurance market of abundant capacity, competitive rates and extensive coverage offerings to their property portfolios. Generally, Insurers both local (domestic) and global had an appetite for risk with few restrictions to the main stay covers. The change to this dynamic was particularly noticeable towards the second half of 2016 and accelerated throughout 2017, with reinsurance treaty renewals 31 December resulting in 5-10% increases to Insurers.

The property market is now seeking overall increases and it is becoming a more challenging environment. There is still a difference between how markets are addressing new and existing business so the need to challenge underwriters and have options is more important than ever. The overall tide is rising and reviews of insurance portfolio accumulation and exposures to natural catastrophe events have led to this remediation, this was further accentuated by significant local fire losses Q1 of 2018.

The main challenges in the market, at present, are that certain Domestic Insurers, namely CGU, Vero and QBE continue to re-engineer their portfolios and other insurers are seeking to write to their "technical rates". This is especially true of high risk EPS, Abattoir, and Natural Catastrophe accounts.

Key events where significant Insurer net capacity has been impacted include:

- Two large EPS (expanded polystyrene sandwich panelling) fire losses with a combined loss likely to exceed AUD600M.
- Cyclone Debbie highlighted natural catastrophe exposure with regard to accumulation.
- Kaikoura NZ earthquake loss had a substantial impact on a deteriorating Australian markets loss record.

The impact to Global Insurers is equally disruptive. USA Hurricanes "H,I,M", Mexican earthquakes and Californian wildfires have significantly impacted Insurer capital and earnings for the last half of 2017 with loss estimates between USD100B and USD175B. The potential loss of capacity in market with Insurer acquisition is of concern. ACE and Chubb have completed the process and XL Catlin are coming together with AXA. Lloyds supported underwriting Agencies continue to provide limited capacity at a cost.

This is further highlighted by the Insurance governing body APRA declaring Australian property underwriting results have failed to meet their "break even" since 2015. As a result, Insurers have produced substantial reductions in offering renewal capacity in comparison to what was provided in prior years. Insurers are making changes to their current program structures, reducing policy cover and seeking to increase deductibles. Significant rate increases have been applied to some renewals at multiples of the historical rate on where they are severely claims effected, unprotected or complex risks and in some cases, Insurers are not offering renewal terms. CGU of particular note, have exited the top 250 ASX listed companies and sent a clear message on reducing risk appetite.

There is still opportunity to differentiate well risk managed, well performing accounts in the market and to do this, quality information is needed and time in the market. It is crucial for clients to position their business apart from the rest. That is, quality property underwriting submissions to market well in advance of

renewal date, detailing their story of a well-managed risk, identifying loss mitigation and control.

**General Liability**

The Australian Liability market is not correcting at the same pace as other areas such as Property, Directors and Officers and Professional Indemnity. There are some challenges.

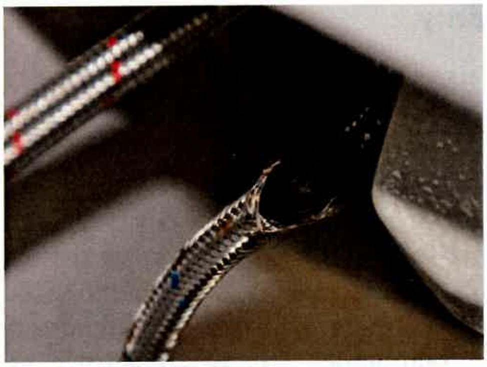
In the SME and smaller corporate Liability market, increases of between 5 and 7% have been successfully achieved by the composite insurers (Vero, QBE, CGU) who are applying blanket increases. They have also been able to secure high retention rates on this basis. We are seeing APRA results that reflect loss ratios nearing 100% so there is tension within this market.

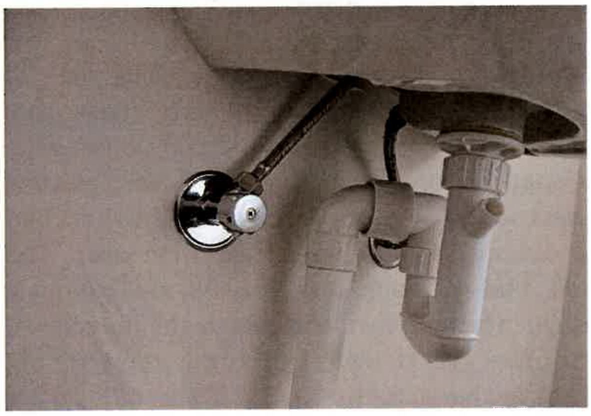
Equally, in the larger corporate Liability space, we are seeing a relatively flat market as premiums are larger and clients are able to differentiate themselves. This said, any accounts that are poor performing from a risk or claims perspective are being re-rated or having underwriters retreat from offering capacity. There remains the opportunity for quality, well risk managed larger accounts to distinguish themselves from the overall push for market increases but this is becoming much harder with brokers having to be innovative and capable to hold the rates achieved in the soft cycle.

Pressure is being applied on minimum rates on line for excess capacity and actuaries/product heads are increasing influencing rating models and underwriting decisions as underwriters move from a "growth phase" to a "correcting" phase. There is no doubt that the momentum to increase premiums will accelerate as the next 12 months unfolds and we witness further contraction of suitable capacity in the Australian market. This has been visible with XL and Catlin coming together, ACE and Chubb and the forthcoming XLC and AXA. This will have a profound effect at the top end of the Liability market.

Clients are advised to consider their geographical spread of capacity to engage competition, manage relationships with key carriers deeply within the organisations as personnel are changing rapidly and maintain contact so that ongoing communication of risk is well understood by insurers. Applying long term deals where afforded (albeit with some caveats) adds another level of future protection for clients.

## Flexible Braided Hose





According to IAG, their research says flexible braided pipes are responsible for more than 20% of water damage claims. This is based on a review they undertook in 2016 of claim data which demonstrated 1 in 5 water damage claims lodged by Australian households were caused by flexible braided hoses. (This was based on a review of 15,000 Escape of Liquid claims over 12 months.).

Recent data released by insurance companies including IAG, QBE and Budget Direct shows flexible

braided hoses that have leaked or split are the number one cause of internal water damage claims.

Whilst the insurance industry does not share specific data relating to these types of claims nationally, a conservative estimate based on the above figures for the top ten insurers only equates to an estimated 150,000 claims annually is costing the industry in the ball park of $722M.

The flexi hose has a limited lifespan and are generally most likely to burst between 5-10 years. The hose itself is constructed in outer braided layers of stainless steel with a rubber pipe interior. A flexi-hose is designed for its malleability and is shaped in a range of plumbing solutions.

In general, there are many reasons why a flexi-hose may burst; the main reasons being:

1. the age of the water hose – most hoses have a lifespan of only 5 years;
2. incorrect installation – this includes over-tightening, over-stretching and looseness which can cause the pipe to fail; and,
3. incremental damage through limited or no maintenance, i.e. rusting, fraying and kinking can cause the pipe to burst.

Up to 1,500 litres of water per hour can flood into a premise from a burst hose. With the continued trend toward open plan living, more open space leads easily to more areas affected by flooding.

**General Recommendations**

- Flexi-hoses should be replaced every 5 years.
- When purchasing a flexi-hose, be sure to check the warranty period.
- Flexi-hoses should be installed by a licensed plumber, so they can safeguard against leakages, ruptures and leaks.
- Have current flexi-hoses checked by a licensed plumber to ensure the integrity of the product, their approximate age and when they should be replaced.
- Turn off the water mains when going away, even if it is just for a weekend, as a preventative measure.

## NSW Emergency Services Levy (ESL)

The New South Wales Emergency Services Levy provides funding for emergency services in NSW, including Fire and Rescue NSW, the NSW Rural Fire Service and the State Emergency Service, all of which help keep our community safe.

Insurers regularly contribute to this funding through the NSW Emergency Services Levy, which is included in residential and commercial property policies, as well as motor insurance policies.

Insurers have an obligation to contribute to the funding of NSW emergency services and do this through the NSW Emergency Services Levy for relevant insurance policies.

Each insurer pays a total contribution to the NSW Government for ESL for each emergency services funding year, which commences 1 July. The contribution is set by the Government and adjusted according to the insurer's market share within the year.

The insurer in practice needs to collect and fund this contribution by charging an ESL component on individual insurance policies, as a percentage of the base premium, which is the premium before government levies and taxes are added. This in practice normally applies to any premium, whether for a new or renewal policy or mid-term change.

The other levies and taxes are then added in the following order:

- base premium, plus
- ESL, plus
- Federal (Commonwealth) goods and services tax, plus
- NSW stamp duty (where applicable).

ESL is therefore subject to GST and stamp duty on top of the ESL itself.

The percentage of ESL charged may vary between insurers. This is due to several reasons, including differences in the insurers' total contribution, market share and other factors.

By charging ESL components on individual policies, each insurer aims to collect no more and no less than its total ESL contribution.

At the end of 2018 most insurers have applied small increases to the current ESL levy, these rates will following into 2019.

## Renewal Strategy and Timeline

The 2019-2020 SLOPES renewal is going to be driven by the Industrial Special Risk (ISR) policy.

As discussed in the general market commentary, the property market has changed significantly over the past 18 months. Insurers are increasing rates at a minimum of 10% to 20% on vanilla risks with no claims.

For the 2018-2019 period, 5 claims have been notified under the policy, including a new one 2 Jan 19. Using the incurred / estimated cost of these claims, the actual cost is likely to exceed $600,000 for the current period. All these claims are as a result of water damage, 2-3 have been specifically caused by a flexible braided hose breaking.

**Sura (incumbent insurer)**

In early conversations with Sura around the renewal they have indicated the premium rate is going to increase, by how much we are unsure of at this stage. They have also indicated that they will apply an additional excess in relation to claim caused by flexible braided hoses. We will work closely with Sura to ensure premium rate increase and changes to coverage are kept to a minimum.

**Alternative Markets**

Notwithstanding the lengthy relationship you have shared with Sura, taking into consideration the current market conditions and the claims history it is important to remarket the policies to ensure premium and coverage are in-line the current market.

JLT Australia have a market leading Placement team, I will work closely with them to ensure the best results are achieved.

**Proposed Renewal Timeline**

*Week starting 8th Jan:* JLT renewal strategy meeting. JLT Placement and Lyndal

*Week starting 14th Jan:* marketing submissions prepared for insurers

*Week starting 21st Jan:* JLT present submissions to Sura (incumbent) and the selected panel of alternative insurers

*Weeks starting 4th & 11th March:* Insurers to provide JLT with final submission

*Week starting 18th Mar:* JLT to present renewal findings to the SLOPES Committee. Committee to provide feedback and confirm renewal

*Week starting 1 April:* JLT bind coverage on policies

*Week starting 1 April:* JLT send out renewal premiums to Lodges

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