

Wesfarmers hit by catastrophes

Jane Searle

Wesfarmers Insurance has slashed first-half earnings by 74 per cent after a severe string of natural disasters blew out its claims budget by \$28 million.

The insurer pointed to the impact of the Melbourne storms, the Christchurch earthquake and West Australia bushfires as triggering a drop in earnings to \$17 million for the six months ended December 31.

"The reality is that there has been an increase in the frequency of severe events in our part of the world and that needs to be compensated for through premium rises," managing director of insurance, Rob Scott, said.

Wesfarmers has a 4 to 5 per cent market share in Australia and is largely a commercial insurer, with personal lines comprising about 22 per cent of gross written premium.

The company's New Zealand Lumley General Insurance business lifted reserves for last year's February Christchurch earthquake.

Mr Scott said Wesfarmers Insurance was reducing its exposure to weather-risk areas in Far North Queensland and Christchurch after its experiences last year.

He declined to comment on premium rises, but said that average double-digit increases were concentrated in the property business.

"In recent years we have been



Bushfires in Western Australia were among the disasters to blow out Wesfarmers' claims budget.

Photo: REUTERS

increasing our allowance for the frequency of catastrophe events and adjusting out pricing accordingly," he said. "We incurred a significant increase in reinsurance costs last June and there is still upward pressure on reinsurance costs."

Reinsurance is insurance used by insurers to absorb the bulk of their large-scale catastrophe losses and reduce the impact of smaller events on earnings.

Reinsurers have raised their prices following weather-related losses from

last year, causing many insurers to carry more risk on their own balance sheets.

Wesfarmers did not disclose the quantum of the rise in its reinsurance costs when it renewed its cover but said that the premium rises it was pushing through were expected to offset the higher costs of reinsurance.

Mr Scott added, "2011 was a difficult year for all insurers, which delivered disappointing financial results, but we feel that we finished with a stronger team and a more efficient,

half-year results on February 16.

Austock works on deal

Broker Austock said talks with Intersuisse Holdings on the proposed acquisition of its business were continuing. An initial exclusivity arrangement between Austock and Intersuisse expired on Tuesday.

Austock said yesterday the exclusivity period granted to Intersuisse would continue until a transaction was finalised or Austock terminated the exclusivity arrangements. **Staff reporter**

High fives for funds

Zenith Investment Partners recommends five market-neutral funds after reviewing 15 such funds in the sector. Market-neutral funds are hedge funds that have no net market exposure. Zenith likes the Aurora Fortitude Absolute Return Trust, the Bennelong Long Short Equity Fund, BlackRock's Australian Equity Market Neutral Fund, the Pengana Australia Market Neutral Fund and the Regal Tasman Market Neutral Fund. **Staff reporter**

Funding pool sought

The Actuaries Institute has highlighted the need for a temporary national funds pool to subsidise high insurance premiums, after last year's natural disasters in eastern states. "The institute recommends the creation of a national pool of funds to subsidise the high insurance premiums of people living in disaster-prone areas," institute chief executive Melinda Howes said. "Any assistance provided shouldn't encourage risk-taking behaviour such as building in flood-prone areas." **Staff reporter**