East Coast Rain and Floods Investor Update

Teleconference Transcript | March 2022

The ASX announcement and accompanying slides can be viewed here.

Operator: Good morning, welcome to the Suncorp Market Update. I will now hand over to Suncorp Group Chief Executive Officer, Steve Johnston. Please go-ahead Steve.

Steve Johnston (Group Chief Executive Officer and Managing Director): Thanks, and welcome everyone this morning at short notice. Just to provide an update on the most recent claims activity across the East Coast of Australia that I'm sure you're all familiar with. I'd start by obviously as usual acknowledging the traditional owners of the lands on which we meet, and to pay our respects to all Elders past, present and emerging.

Today I'm joined by a number of members of the Executive Leadership Team. We are widely dispersed today. I am in Hobart meeting with the team down here. Paul Smeaton also joins us, he's in Adelaide meeting with the team there in Adelaide as we look to start the process of reinvigorating our workspaces around the country. Jeremy and Lisa join us from Sydney.

So, I'm just going to kick of the presentation, and there was an attached series of slides that we'll just make some brief comments on. I'll kick off with some introductory comments, and then hand to Jeremy. He'll hand to Paul, and then Lisa, and then we'll sum up and we'll open up for questions after that.

The first slide there on the presentation deck today is the one that we use right up front in all of our presentations that really goes to how we believe value can be created at Suncorp, is going to be created at Suncorp. It's an inverted pyramid and it starts with purpose. Our purpose obviously is to build a future to protect what matters. I think that's never been more amplified as it is when you come to these sort of extraordinary events that we have been dealing with over the past couple of weeks.

It's our purpose that defines us, it's delivered through our people. What we've found over the past couple of weeks as we've stared into the enormity of the claims activity is a real reinvigoration of our workforce, people wanting to be part of the claims activity, wanting to get in and support customers. That support for customers I think obviously is at the core of what we do. But I'd also make the point around communities - when you have these big events, of a scale of the most recent activities, our work, not only builds and gets customers back into their homes, it rebuilds a sense of community. Both in terms of getting people back into their homes, rebuilding regions, suburbs, streets, et cetera, but also support we provide directly to a number of community organisations that Lisa will talk to.

Obviously doing all of that right in a period of time of great stress in communities and for customers - we believe we can deliver long-term sustainable financial outcomes by doing all of that well and creating long-term value, long-term loyalty, brand consideration increases and also high levels of retention. We are already seeing that, we saw that in 2011, and we expect that we'll continue to see that as we get on top of the claims activity.

Let's see just quickly the next slide, which is really a summary of where we're at in terms of the claims outcomes. Quite an extraordinary series of events, 15 consecutive days of severe weather, that has only recently concluded, stretching a geography right from north of Gympie all the way through to Sydney, south of Sydney.

I've had the opportunity now to visit Gympie, to visit Lismore and to spend a fair bit of time around South-East Queensland. I've spent time with our assessors on the ground in customers' homes as we started the process of that assessment. Obviously, there's a lot of heartbreak out there in many of these communities with many of our customers, who we're working very hard to get back into their homes as quickly as we can. The enormity of that challenge starts with cleaning up, getting carpets out, getting that taken away by councils and other authorities and then allowing us to get in and start the process of the rebuild.

We talk there about some of the key loss causes, top event loss causes. It's an interesting event so far as it's got a whole range of different claims configurations. So, a lot of heavy rain, that meant a lot of water's gotten through roofs, into walls, into ceiling cavities, et cetera. As you would see in a traditional rain event. Flash flooding where storm water has backed up, et cetera, and created flash flooding events across streets and through into individual properties. Then right down into larger losses. So large claims activity from big losses from riverine flooding and the like. So, a whole series of different loss causes. We have been working their way through the event. We have seen 34,000, just over 34,000, actual claims to date. We project that will land at around 44,000, just over 44,000, and bring our total claims, our natural hazard claims for the year to ahead of 100,000.

We also talk there about some of the most impacted postcodes. I think they're pretty reasonably familiar to everyone. Obviously big activity around Lismore and the Northern New South Wales region and through South-East Queensland.

So that's a quick summary of the claims lodged to date. What I might do now is just hand over to Jeremy to run through the financial implications, but particularly the reinsurance implications, which are flowing from the event. Over to you Jeremy.

Jeremy Robson (Group Chief Financial Officer): All right, thanks Steve, and also welcome everyone to the call. I'll just make a few comments on the financial impacts of the recent weather events. As Steve said, the weather impacted the East Coast for 15 consecutive days through late-February/early-March. We work with Weatherzone to determine the number of events from a financial reinsurance perspective. We have assessed that there were four separate weather systems, giving rise to four separate events.

First, we had the East Coast flooding in South-East of Queensland and Northern New South Wales, from 23 February to 1 March. This was the most significant event across the four, with approximately 25,000 claims to date. Then we had the New South Wales-East Coast low, which included Western Sydney, from 2 March to 4 March, with over 2,000 claims to date.

We had a smaller event with Queensland storms across the South-East of Queensland, also from 2 March to 4 March, with approximately 1,000 claims to date. Then finally we had the March storms and flooding, predominantly across Greater Sydney, but elsewhere as well, which is also a significant event from 5 March to 9 March, with just under 6,000 claims to date.

In terms of reinsurance, these events have impacted across the full breadth of our program, across the Queensland Home Quota Share Arrangement, the Main Cat program, drop-downs, and the original AXL cover. After all of that we expect the net retained cost of these four events to be approximately $75 million.

I will now give you a bit of a sense of the reinsurance cover remaining following these events. We have got approximately $150 million of the original AXL $450 million cover remaining. We also retained the full limit of the additional 50% additional $150 million AXL cover purchased in the first half. We have around $300 million remaining under the three drop-down covers, with amounts remaining under each of those drop-downs.

We have three full layers of the $250 million excess $250 million Main Cat program. We have two full layers of the Main Cat program $500 million all the way up to $6.5 billion. Of course, the 30% quota share on our Queensland Home portfolio remains in place. Now I do note that the events are continuing to develop and so these estimates may be adjusted as the ultimate costs of each event are more clearly defined.

The remaining protection I've just gone through though does reflect a reinstatement purchase of one $500 million excess $500 million layer in the Main Cat following that East Coast flooding in late February, the first event. The premium is not expected to be material, but it does adjust depending on our utilisation of that first tower for the remainder of the year.

Including these events, we have now experienced an additional 10 events since the end of the first half, bringing the total number to 30 events year-to-date. Now as we've set our natural hazard allowance on a through-the-cycle basis, ahead of BOM declaring any particular weather pattern for the season ahead. This year's allowance was not set to cover the La Nina weather cycle that was declared in November. The second consecutive La Nina weather cycle is expected to bring with it more moisture-related events.

Now given these events, the recent ones, and reflecting the extensive reinsurance cover remaining in place, we now expect the full year natural hazard cost for FY22 to increase to approximately $1.1 billion. I note that our natural hazard allowance has been increased significantly over the last five years. We get comfort over its appropriateness for the level we're now at given the modelled outcome for a La Nina weather pattern gives a similar dollar number to where we now expect to land FY22.

The impact of all these events will of course be considered as we renew the reinsurance program for FY23. We will update on this at the full year results once the renewals have been completed.

Before I finish, I'll just make a quick comment on the Bank where we have received some hardship requests following the floods. But the overall quantum is not material. We don’t expect this to have any material impacts on the Bank's level of credit provisioning. We will continue to monitor as we go through to the year end.

On that I would now like to hand across to Paul to give an update on the operational aspects of the claims.

Paul Smeaton (Chief Operating Officer Insurance): So, thank you Jeremy, and good morning to everyone. For those on the call, if you recall at previous investor updates, one of the key strategic initiatives within the Insurance Australia business is the Best in Class Claims program. If you recall, this program has four streams of work, three of which are directly relevant to the natural hazard event response. So, first of all we had digital lodgement and tracking, we have market-leading event response, and we have supply chain optimisation.

As Steve has indicated, we have received over 34,000 claims across these events. Our current operational forecast suggests around 44,000 claims will be lodged. In terms of our initial response, one-on-one communications with our customers has played a very important role. For example, more than 1.1 million SMS messages have been sent to our customers to promote online lodgement and provide information on the claims process.

As a result, we are currently seeing around 68% of claims lodged online. Home is sitting at around 71%, and motor 51%. Now this has allowed our customers to avoid potential call centre queues, but more importantly expedite the recovery process. So, to give you a feel for that, more than 11,000 make-safe repairs have been allocated, and over 600 customers have been placed in temporary accommodation.

Further reinsurance and claims messaging has been deployed across all channels, including social media, radio, TV and press. Now given the scale of these events, a dedicated Head of Flood Response and Recovery Manager has been appointed within the Home Claims team to oversee the end-to-end recovery process.

In terms of personnel, we anticipate approximately 600 FTEs will be required to respond. These teams will be located in both Australia and New Zealand, recruitment has commenced, with 200 appointments underway and the first round of training started on 11 March.

Now a key capability within our dedicated Natural Hazard Event Response Team is the Event Control Centre. Now the Event Control Centre uses geospatial technology and satellite imagery to understand impacted areas. It gives us a sense of our risks in-force in those impacted areas, and those risks in-force have lodged claims.

Throughout the event these insights have allowed us to drive personalised one-on-one communications, such as proactive welfare calls. It's allowed us to identify locations to deploy our face-to-face customer support teams. It's helped inform us in terms of our claims management assessing and repair strategies.

Additional data sources from Suncorp flyovers and flood mapping are currently being loaded into the Event Control Centre. This will provide further insight to support our response. To date, as Steve mentioned before, the Customer Support Teams have been deployed to Gympie, Ipswich, Murwillumbah, Mullumbimby and Lismore. In those impacted areas we obviously had all our home assessors on the ground.

For Motor we have established a dedicated triage site for flood damaged vehicles in the Greater Brisbane. We have also set up a dedicated processes for customers with motor claims in the Northern Rivers region. We have sent an SMS to those who have lodged a claim requesting that the customer supply images of their damaged vehicles via email. This will allow us to progress their claims through a digital assessment process.

In terms of our supply chain, now Suncorp has a national home billing panel consisting of 38 builders. Our contract rates, terms and conditions were renewed as part of the Best in Class Claims program in November of last year. However, to ensure our building panel secure and retain trade capacity, a loading has been agreed to the contracted rates. Importantly, this loading will only apply to these events, which in essence preserves the costs associated with our working claims book and other events.

Given the scale of this event we have had to work to secure additional building capacity and have enacted project management capability across specific regions. Now allocation of this work to our builders, and cost control, will be managed using the recently deployed In4mo and ICBM systems. At this stage there are no capacity issues at our dedicated commercial property, builder and loss adjuster panels.

For Motor, we expect the event will result in the majority of damaged cars being considered a total loss. Therefore, there will be limited impact in our motor repair panel. The first salvage auctions for damaged vehicles are scheduled later this week.

So, in summary, there is no doubt given the scale of these events it will be a challenging recovery process. However, we do feel we are well-placed to respond, given the capability we have available as a result of the Best in Class Claims program of work. On that note I will hand over to Lisa.

Lisa Harrison (CEO Insurance Product & Portfolio): Thank you Paul, and good morning. I'm going to touch on our brands and pricing. What I would say is, the strategic priorities that we have outlined previously have helped the Insurance Business be in a strong position to respond. So firstly, as you know, we took on the role of reinvigorating the brands to reinforce the value the provide. There is no better time in a disaster.

As you would also know, Suncorp in recent times has taken on a leadership position to help communities prepare for disasters, which Steve will touch on. We have also strengthened our proposition to help with the recovery. With Suncorp having the Build it Back Better product feature and GIO Safety Net.

During the event we have driven a strong presence in market, with proactive weather alerts and customer support messaging. Using data and analytics we have proactively contacted over 2 million customers through SMS and email to provide them with the details on how to lodge an online claim, alongside tips to help with the recovery. We also created specific above-the-line marketing for the event, with significant reach across the East Coast. Our estimated total cumulative reach over the 17-day period is 52 million.

To support a community-led recovery we have also pledged $1 million as part of a community support package. This includes $0.5 million of flood-related grants in local communities across Queensland and New South Wales, in partnership with our existing partner, the Foundation for Rural & Regional Renewal. This event is across a broad geography, and these grants will be invaluable as each region will have different concerns and needs.

Whilst it's early days, since the event we have seen a lift in sales and strong retention continues, in part reflective of the flight to quality brands, and those brands who are visible and responsive during crises.

So, let me touch on pricing and risk selection. We continue to make good progress in our pricing and risk selection pillar. Responding to the increase in frequency of natural hazards and reinsurance input costs, we commenced significant re-pricing of the Home portfolio in mid-2020 where we have been putting through significant increases around double digits. We have also strengthened our pricing tools and models to better understand peril risk and price for it.

Importantly, CaPE has now been deployed for mass Home. While it is still early days, CaPE is delivering in-line with expectations, with January seeing our mass brands with record Home renewal rates and average premiums for each brand. When we deployed CaPE we also updated our natural hazard models with even better risk selection. Whenever we have a large event, we also reflect on our models relative to the experience and based on our modelling to date, our risks in force is lower in high flood areas relative to our market share.

Whilst we know claims are still yet to be lodged - the map we have on the slide is for Lismore. The blue dots represent our view of low-risk locations with high-risk progressively moving through amber and red, and the blue shading represents where the flood has affected parts of the town. As more detail emerges from the event, we will continue to check our model accuracy.

With CaPE now deployed for Home we are better positioned to update models and pricing post an event such as this. As we continue, we will continue to ensure we have disciplined portfolio management, alongside continuing to strengthen the underwriting and pricing tools across the consumer and commercial portfolios in particular. I will now hand back to Steve.

Steve Johnston (Group Chief Executive Officer and Managing Director): Thanks Lisa and before we hand over to questions, I just want to restate some of the resilient mitigation messaging that we have applied in the market and we are not new to this story as you know. I think I've been talking about it, we have been talking about it as a Company for a number of years and particularly amplified post the bush fires in our half year result in 2020.

Really, we do need to stare into these issues and we have been saying this for a number of years, the four point plan that we have talked about is a simple way of thinking about how the public policy response should be galvanised alongside the work that the individual insurers do and that the Insurance Council as a collective does alongside governments at all levels.

The first point of that plan is to improve public infrastructure. We know that levies and other elements of public investment do mitigate against risk and they do mitigate against flood risk and we have seen that in many communities, particularly in Roma in South Western Queensland and we know that those investments work. We know that there is a number of levy proposals that are sitting on the shelf locked up at the moment between local, state and federal government and they can be moved very quickly into implementation phase.

The second point is to provide subsidies to improve the resilience of individual’s own housing assets. Lisa talked about the way that we applied our product innovation capabilities to build it back better through our One House initiative. It seems unusual to me that you can get a subsidy to put a solar panel on your roof but it's very difficult to get a subsidy to batten down your roof to offset against a category four or five cyclone.

Our priorities here are all wrong, so there's a great opportunity for subsidies, whether that be tax subsidies or otherwise, to encourage people and to incentivise people to improve the resilience of their private dwellings.

In those first two points I would make a point that the ICA has recently produced a manifesto ahead of the federal election campaign which outlines a $2 billion investment which stretches across both of those two categories, improve public infrastructure but also a series of initiatives to improve resilience of private dwellings. $2 billion for a $19 billion return through to 2050. It seems to be a reasonable investment and one that we fully support as part of the ICA.

The third point is obviously inadequate planning laws and approval processes. Now, this is an issue that stretches back for more than 100 years. There's no point at pointing the finger at any particular level of government or any recent government. It has been in place for a long period of time. It's time we drew the line, we improve the quality of our planning and development laws and we look to create planning laws that are more appropriate for the risks that we face today and not the risks that we might have faced 50 to 100 years ago.

The final point is one that we are very passionate about which is the removal of inefficient taxes and charges from insurance premiums. The fact is that in New South Wales today more than 40% of insurance premiums is taken up with both GST and stamp duty and then an emergency service levy sitting on top of that. It's 30% in Queensland and 30% here in Tasmania as well. It seems to be the most inefficient utilisation of taxes and charges and leads to and compounds affordability issues. There's a high correlation between lower socioeconomic communities and flood risk particularly and so those premiums and those insurance policies are loaded with the peril loading for flood risk and other peril-based activities and on top of that proportionate is the GST and the stamp duty. It just seems to be a huge disincentive for people to take home insurance cover at a period of time when they really do need home insurance cover.

So again, we reiterate that this four point plan is a very simple way of thinking about how the public policy response may well work alongside the work that we have to do as an insurance company to get people back into their homes and the work that the industry more broadly needs to do to create a more resilient Australia.

At that point, I might pause and open it up for your questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on speakerphone, please pick up the handset to ask your question. Your first question comes from Kieren Chidgey from Jarden. Please go ahead.

Kieren Chidgey (Jarden, Analyst): Good morning, guys. I've got a couple of questions if I can. Maybe just starting on the event definitions, Jeremy. I just wanted to be clear around the four events you're talking to. Is that partly a function of the flood period cover under your reinsurance or do you see them as four separate weather events?

Jeremy Robson (Group Chief Financial Officer): Yes, it is predominantly a function of the different weather events. On the first one there is a little bit of, with our event cover time periods, there's a little bit of a latitude around the day, but really the rest of them and outside of that, it's purely dependent on whether or not they're defined as different weather systems and they have been defined as different weather systems in which case they're different events from a reinsurance perspective.

Kieren Chidgey (Jarden, Analyst): Okay, thanks and secondly just in terms of the revised budget. Can you give us a fairly high-level feeling for what you're assuming for the remainder of the half in terms of what is going into that for any further large losses?

Jeremy Robson (Group Chief Financial Officer): Yes, I mean look we do a number of different scenarios on it, Kieren, and it comes in a number of different ways. The first way we come at it is look at the - we run it through the model. We run where we are actually year to date through the model, we turn the La Nina adjustment on the model and we see what number that gives us. We will then look at the, in the appendix there you've got effectively the year to date natural hazard cost of $950 million odd, so that leaves another $150 million to go to the $1.1 billion number and we think about that in terms of what that needs to cover which is attritional losses and deductibles on particularly the AXL for any events coming through there and then we'll also have a look at it in terms of large losses. So, we come at it in a number of different ways and yes, each way we come at it the $1.1 billion is the expected loss for the full year. In fact, it's a little bit - it's just marginally less than $1.1 billion. It's not quite $1.1 billion but we rounded it up to $1.1 billion.

Kieren Chidgey (Jarden, Analyst): Okay, thanks and just a final question. I'm just interested in what you see as implications as you go into the reinsurance renewal at 30 June both in terms of the structure of your current program, the availability through the aggregate in particular and potential repricing impacts as a result of what looks like it will be quite significant utilisation of that cover this period?

Jeremy Robson (Group Chief Financial Officer): Yes, look, I mean I think today it's too early to talk about renewal implications and outcomes, be that it be commercially sensitive so not something we could talk about anyway. Clearly there's been a lot of weather, clearly there will have been a lot of recoveries against the program and for us, we will continue with the same strategy that we have always with reinsurance which is around optimising ROE through the program, particularly through the main cat layers and then seeking to optimise the volatility cover. So, we will maintain a similar strategic approach to it and we've got to go through the renewal cycle and there's probably not much more that we can say at this stage because actually we don't know either.

Kieren Chidgey (Jarden, Analyst): All right, thank you.

Operator: Your next question comes from Andrew Buncombe from Macquarie. Please go ahead.

Andrew Buncombe (Macquarie, Analyst): Hi guys. Thanks for taking my questions. Just the first one is off the back of one of the previous questions. So, does this new $1.1 billion hazards guidance assume that you go through all of the additional $150 million AXL or where does that sit against the $1.1 billion?

Jeremy Robson (Group Chief Financial Officer): Well, it depends which way you come at it, Andrew. From a model's perspective the model outcome is actually we don't go all the way through it. That's one way of looking at it but equally from a bottom up that $150 million still to go, with the scenarios around that, we assume that we get close to getting to the top of it.

Andrew Buncombe (Macquarie, Analyst): Yes, and then my second question was just on the cost of the reinstatements. Historically they've cost you about $25 million to $35 million. Is that the right way to think about it going forward or is it so flexible right now that it's difficult to comment? Thanks.

Jeremy Robson (Group Chief Financial Officer): Yes, look, I mean obviously it's a commercially sensitive number but we are saying it's immaterial so I would expect it to be less than that, but as I said there is a contingency around it in terms of how much of that first layer, well not how much of it, but if we use that first layer and it becomes lighter then there is a contingency there. So, the way we look at it really is it's like an option for us to take that third layer out.

Andrew Buncombe (Macquarie, Analyst): Sure and then the final question from me was around Paul's comments about hiring an additional 600 people to deal with the claims. How should we be thinking about the cost of those people against the Group cost targets of 2023, or are they all going through the claims line and into reinsurance? Thanks.

Jeremy Robson (Group Chief Financial Officer): Yes, they will all be recovered through the reinsurance line so that should have no impact on the 2023 targets.

Andrew Buncombe (Macquarie, Analyst): That's it for me. Thank you.

Operator: Your next question comes from Nigel Pittaway from Citi. Please go ahead.

Nigel Pittaway (Citi, Analyst): Morning guys. I mean just first of all following up on the reinsurance question, I know you can't talk about the cost of that per se, but maybe you could give us a flavour for how much of these events have hit the main cat tower rather than the volatility covers? Have the reinsurers on the main cat taken a fair bath on this or is the main cost still going with the volatility cover provided?

Jeremy Robson (Group Chief Financial Officer): We have said that we have got three of the $250 million excess, $250 towers left. So, you can infer from that that one of the events has gone through the $250 million layer, $250 million up to $500 million, and then we have reinstated the $500 million to $500 million layer, so you can infer that one of the events has gone through that as well. We're not talking at this stage about how much through that it is, but yes, we have gone through - one of those events has gone through all the way up through to a $500 million to $500 million layer. The rest of them are sitting down in the volatility covers.

Nigel Pittaway (Citi, Analyst): Okay, so when it comes to renewal, you're still going to expect a lot more pressure on the volatility covers than you are on the main cat program. Is that a reasonable conclusion?

Jeremy Robson (Group Chief Financial Officer): Well, I think the only thing I could conclude at the moment Nigel is that is where we have seen some recoveries this year and we'll have to go through the process with reinsurers, but there's still a lot of interest and capacity for the Australian market so we'll have to go through the process.

Nigel Pittaway (Citi, Analyst): Sure and you are seeing the same level of capacity for this year as 12 months ago or do you think that has reduced at all in terms of willingness from reinsurers to provide capacity, particularly for the more frequency-related covers?

Jeremy Robson (Group Chief Financial Officer): Yes, look, I think the market as a whole is probably less interested than it was one or two years ago, but the important thing for us is that we are not looking at new capacity. We are looking at renewal capacity and I think there's a slight, you know, we get a slightly different context on market capacity whether it's new or whether it's renewal.

Nigel Pittaway (Citi, Analyst): Okay. Maybe just finally, I mean do you see any risks or any other pressure in terms of rebuilding et cetera will spill over into broader claims inflation or are you pretty happy that's sort of still not too much of a concern at this juncture?

Steve Johnston (Group Chief Executive Officer and Managing Director): I mean I might just start there and hand to Paul. I mean I think, Nigel, the key element of our response here is to seek to quarantine the flood recovery work and the claims work that Paul needs to do to get these claims managed and make sure that that doesn't contage, in any way shape or form, the working book. I would make a couple of points.

One is that the best in class claims program, the initiatives that are embedded in that, which we talked about at the half year, In4mo and ICBM systems, new builder panel, agreed rates and a number of other initiatives around digitising our end-to-end claims process, they're going to continue. In fact, we are going to speed them up because one thing that we have seen through this event is the, you know, if I were to go back 12 months and think about what are the two most important things we have done that has helped us and put us in a strong position to address this event, the first one is digital claims lodgement.

We are getting claims in materially faster than we have in any other comparable event in the last 10 to 15 years. What does that mean? It means you get the claim lodged, you get the work allocated, you get the make safe done, you get people in temporary accommodation and most importantly and particularly in South East Queensland and up through into Gympie and into Lismore as well, we have been able to start the process of making sure we don't see mould take hold in many of these properties. So, digital lodgement and ultimately digital tracking right through to fulfilment is such a big game changer for the whole claims process.

The other one is what Lisa talked about which is CaPE. Our ability to manage our pricing from here on through is materially improved given that we deployed CaPE across the mass brands in Home and those two initiatives have put us in a very strong position to deal with this event and the program that Paul will implement, or continues to implement, best in class claims, which is multifaceted, we talked about it before. It's designed to not only address natural hazard claims but really make sure that the working book is as quarantined as it can be from some of these inflationary factors that we know are sitting there in many of these repair processes. Paul, did you want to add anything to that?

Paul Smeaton (Chief Operating Officer Insurance): Well, you haven't left me much Steve, you've answered it really well. I mean the only thing I would say is I think we are well placed to manage any inflationary pressures, so there's a good starting point. To your point, we have a lot of other initiatives we are deploying as part of best-in-class claims. Just to give an example of that, we recently deployed bulk buy, whereas previously we used to rely on the buying power of the builders. Well now we are actually going and buying nationally-based on our spend and we just recently renegotiated paint, from the categories of paint, roofing, flooring and waste, which are pretty handy categories to actually have bulk buy on when you're going into this flood event. I just think we are well placed to manage it, suppress it as best we can and we've got the tools like ICBM to monitor it very carefully.

Nigel Pittaway (Citi, Analyst): Okay, great. Thank you very much.

Operator: Your next question comes from Matt Dunger from Bank of America. Please go ahead.

Matt Dunger (Bank of America Merrill Lynch, Analyst): Thank you Steve and Jeremy for taking my question. Just on the pricing, you have talked to 10% average price increases being put through the Home book recently. Can the book sustain another round and when are you going to review pricing on the Home book?

Steve Johnston (Group Chief Executive Officer and Managing Director): I might kick off and then Lisa can jump in. I think Lisa mentioned when we deployed CaPE across mass brands, we did look at our hazard pricing and to some extent that was a continuation of the repricing initiatives that we put in place post the bush fires. As CaPE was deployed our ability to be far more sophisticated around how we increased and addressed pricing for hazard perils improved, so some increases went through there.

I only make the point, without indicating anything particularly around rate percentages or otherwise, we continue to look at this weekly to see where we need to increase pricing, whether that be across the portfolio or more particularly into loss affected areas or into the individual perils ahead of what was likely to be an increase in our natural hazard allowance and any anticipation of the reinsurance renewal. Lisa, did you want to add to that?

Lisa Harrison (CEO Insurance Product & Portfolio): Yes. Matt, what I would say is what you have seen is we have remained very disciplined in terms of pricing and portfolio strategy as well as investing in our pricing tool model and we will continue to take that approach in terms of being disciplined and continuing to invest. As Steve said, pricing is a core capability of ours. We look at the data daily, weekly and continue to reflect on that and update our models as appropriate.

Steve Johnston (Group Chief Executive Officer and Managing Director): Matt, just to add to a couple of other factors, okay, so we saw this in 2011, which obviously we were able to respond to that event far quicker than the rest of the industry. We saw a significant increase and improvement in retention. We'd already seen that through the latter part of last calendar year into this year. In fact, our retention rate across the portfolio in Home, across the mass brands are the highest they've ever been.

I think what you see during these sorts of events, two things. One is people focus on under insurance to the extent that when they see the events come through, they check to see that they are appropriately insured and you see adjustments to sums insured coming through. Then you see the value of the product.

It's a painful set of circumstances to have to go through, but there's a lot of consumers sitting at home now understanding how important it is to have home insurance and to have good quality home insurance.

So we see that come through in terms of retention rates and new business but also that fight for quality, good quality home insurances, particularly important at this point in time and it is amplified through our premium book.

Matt Dunger (Bank of America Merrill Lynch, Analyst): Thanks Steve. You read my mind actually on the under insurance issue and just wondering if you can comment versus 2011. It might be too early, but in terms of uninsurance and under insurance, have you seen any change in the book as to what proportion were underinsured or uninsured from this recent disaster?

Steve Johnston (Group Chief Executive Officer and Managing Director): Yes, look, really I think two things have occurred that are different to 2011. The first is there is significantly more flood insurance coverage than there was in 2011, for all the reasons we know from that event where there were large portions of insured who didn't have flood insurance not in the Suncorp book but in the rest of the industry. That has improved over time.

In terms of non-insurance and under insurance, I think you're going to find there is quite a bit of under insurance sitting there. People just have been somewhat complacent around making sure that their sums insured are up to date. Whether that be in a BAU sense, but also reflective of the increased inflationary effects that are the sitting there in many of the repair elements. So that's first thing.

Non-insurance, I think you're going to see a high degree of non-insurance in particularly flood prone areas. It goes to that discussion that we had just a minute ago around our resilience and mitigation; why really governments need to get on the front foot and start to mitigate against the flood risk.

So I think you'll see in the higher flood risk areas higher degrees of under insurance and then outside that elements of under insurance. Again, I think as I mentioned previously, just underscoring the value of the product more broadly and the need to keep sums insured up to date.

Matt Dunger (Bank of America Merrill Lynch, Analyst): Thank you very much.

Operator: Your next question comes from Andrei Stadnik from Morgan Stanley. Please go ahead.

Andrei Stadnik (Morgan Stanley, Analyst): Good morning. I want to - thanks for the detail. I mean, this is has been very helpful; a lot more than I think than any other insurer has disclosed to this point.

I wanted to ask two questions; in terms of the catastrophe budget outlook for FY23, and particularly you mentioned that these are extraordinary events, but unfortunately we've had fairly substantial severe weather events or otherwise for the past 11 years and Suncorp and other insurers catastrophe budgets despite some substantial assistance from the aggregate cover.

So how much higher should the catastrophe budget increase for FY23 in order to give your investors some certainty you could actually hit that number?

Steve Johnston (Group Chief Executive Officer and Managing Director): Yes, I mean I'll start and then hand to Jeremy for the specifics. I think if you stand back from the last two years, we've unfortunately had two back to back La Nina weather cycles, which again, we don't set our allowances for that every year. Obviously we can't do that. We'd price ourselves out of the market, if we did so.

So, typically we set our natural hazard allowance for the year that we move into back in March. So, we start to think about that now. We really don't get a clear indication from the weather bureau until best case October, usually in November as to what weather cycle we're going into.

So Jeremy, talked through how we back engineer what a La Nina weather cycle looks like in terms of exceedance to an allowance and that's been pretty much in line with our expectations for the last two years and for the next year by definition, because we are looking back such a short period of time now, 10 years ago, we used look back between 17 and 44 years to bring forward the allowance for the future years. Now, we only do it across most categories of claims cost over - look back over five years. So, by definition, if you've got two La Nina weather patterns in the last five years, you're going to see an increase in the allowance for the coming year.

So again, I think that allowance will increase. It will be somewhat subject to what reinsurance we ultimately end up buying but it will increase. Again, we're, like everyone, I think hopeful that we don't see a third La Nina weather cycle. The odds of which are below 10% I'm told. Jeremy?

Jeremy Robson (Group Chief Financial Officer): Yes, Steve you've covered it pretty well. Yes, we do expect that allowance to increase next year. In all of the narrative we've spoken about in terms of the outlook for the business we've got that included. The most recent weather might put a bit more onto that, but yields are helping us as well along the way.

Just on the we've had a lot of weather over the last 11 years, just context on the natural hazard allowance. We have lifted it from about $600 million in FY17 to what's now close to $1 billion in FY22.

So, there's been a big increase in that natural hazard allowance. As Steve said unfortunately having done that, we've now had two consecutive years of La Nina, which has impacted on our performance against that allowance.

Andrei Stadnik (Morgan Stanley, Analyst): Thank you and can I ask one second question around affordability. So, for the first time in a while I think we've heard the Federal Government talk about affordability concerns for insurance. You mentioned double digit price increases are pushing through, but wages are not rising as quickly as that. So how do you think about you really trying to handle affordability constraints that could be coming in from either retail and for many customers?

Steve Johnston (Group Chief Executive Officer and Managing Director): Yes, well obviously affordability is the key thing that we look at as well. I mean, we like people to be covered. I've talked about our purpose and that purpose can really play out when people buy home insurance and they buy good quality home insurance.

So, affordability is a big issue for us as well. When you talk about making insurance products more affordable, that's where the four point plan comes in. They've got to, together, us, the industry and all levels of government have got to focus on mitigation. We've got to get the risk out or reduce the risk. We can't just keep leaving the risk there and seeing the costs and the mop up continue to escalate.

I'd also make the point that one of the best ways to improve the affordability of the home insurance product is to take the taxes off; 45% taxes in New South Wales, 30% in Queensland. If those taxes came off, it would immediately create a more affordable insurance market. There may be other things the government can do to incentivise people to be appropriately covered.

So, affordability is a big issue. Equally, home insurance is a very valuable product, proved to be the case for the last 10 years. It's a product people need to have. I think it's only through collaboration between individual insurers, the insurance industry, and all levels of government that we can actually get a public policy response here that creates an affordable private sector insurance marketing into the future.

Andrei Stadnik (Morgan Stanley, Analyst): Thank you.

Operator: Once again, if you'd like to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Doron Kur from Credit Suisse. Please go ahead.

Doron Kur (Credit Suisse, Analyst): Hi, you've already answered my questions. Thank you.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr Johnston for closing remarks.

Steve Johnston (Group Chief Executive Officer and Managing Director): Thank you very much for joining us today. Again we are very keen to make sure that as our claims numbers, as we have, fingers crossed, a break in the weather, and we could get a good assessment of where we're at, we were keen to get into the market just to explain the claims elements, the reinsurance interaction, what the financial implications for the Group are and fundamentally to restate some of those advocacy positions that you've heard us talk about. But you're going to continue to hear us talk about right through into the into the budget and then beyond the budget of the election campaign. They're all critical issues for the country to grapple with.

So, thank you for your time and we look forward to catching up hopefully at the full year. Hopefully there's nothing more to report between now and August. So have a great day. Thank you.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

End of Transcript