

APPENDIX 5: QUEENSLAND BUILDING SERVICES AUTHORITY'S FINANCIAL RESULTS

The BSA re-insures three quarters of its insurance risk on a quota share basis (that is, private re-insurers receive a fixed percentage of all premium income exclusive of GST and payout the same fixed percentage of all claims). The re-insurers' obligations on their share of individual or collective losses are not limited (capped) in any way.

The BSA splits its total premium income (net of GST) into underwriting premium income (71.5 per cent) and insurance administration income (28.5 per cent). The underwriting premium income is shared between the BSA and its re-insurers. The insurance administration income is used for supporting the insurance operations of the BSA and meeting any shortfall in the BSA's insurance obligations. Any spare administrative income accumulates in a small reserve of uncommitted funds.

The BSA measures its loss ratio by dividing projected claims for a particular underwriting year by the underwriting premium income (excluding GST) for that year. This differs from the normal practice of general insurers, which is to divide projected claims by total premium income.

To project future claims for the full 6.5 year liability period for each policy year the BSA has an independent actuary undertake a full actuarial analysis using its historical claims data. The results of this exercise determine the necessary reserves that are set aside to meet future liabilities from emerging claims.

The following table shows projected loss ratios based on the methodology used by the BSA. As can be seen these loss ratios all exceed 100 per cent of the underwriting premium pool.

Table 1: Loss ratios (projected claims as a percentage of underwriting premium income)¹

	Loss Ratio per cent
1995/1996	106.2
1996/1997	110.6
1997/1998	147.3
1998/1999	135.4
1999/2000	147.8
2000/2001	108.3

If the loss ratios were measured in the conventional way used by private general insurers (that is, projected claims divided by total premium income, exclusive of GST) the results would look as follows.

1 Data prepared to 28 February 2002, but extrapolated to 30 June 2002

Table 2: Loss ratios (projected claims versus total premium income)

	Total Income	Projected Claims	Projected Loss Ratio per cent
1995/1996	10.491	7.533	71.80
1996/1997	11.602	8.731	75.25
1997/1998	12.730	12.374	97.20
1998/1999	12.361	10.831	87.62
1999/2000	16.281	16.351	100.43
2000/2001	12.151	9.785	80.52

With the exception of 1999-2000, all years would have a loss ratio of less than 100 per cent. Of course an allowance for administration costs would need to be added to the projected claim costs to show the complete loss ratios. The BSA has not provided this information.

A marked deterioration in the BSA's underwriting results emerged in 1999 as a result of new policy benefits introduced in 1997 in response to initiatives by New South Wales and Victoria. Policy benefits were again enhanced in October 1999 when the policy maximum was increased to \$200,000 to keep pace with changes interstate. At the time the BSA increased its projected costs for future claims to take account of these policy changes, but these provisions proved insufficient.

The introduction of the GST on 1 July 2000 increased the cost of projected claims on existing policies by at least 10 per cent, aggravating the loss ratios.

On 1 July 2001, the BSA increased its insurance premiums to take into account the obvious deterioration that had occurred in prior underwriting periods. If the new premium structure had applied in previous years the loss ratios in Table 1 would have looked as follows.

Table 3 demonstrates that even with administration costs of say 15 per cent, the BSA's new premium structure should be sufficient to meet its future claims unless there is a complete change in claimants' behaviour.

Table 3: Estimated premium income under new premium structure

	Premium Income \$ million	Loss Ratio per cent
1995/96	12.3	60.0
1996/97	13.2	64.1
1997/98	14.7	81.2
1998/99	14.7	70.0
1999/00	15.7	99.1
2000/01	13.5	67.0

The BSA asserts that it is a self-funding statutory authority operating an insurance fund independently of any revenue other than that collected through insurance premiums. It also says that its re-insurers cite the comprehensive nature of its licensing and dispute resolution regimes as the reason for their continued involvement with its long running insurance program.

The BSA claims that it not only has adequate reserves for meeting all its future claims and their associated administration costs, but it also has free reserves of over \$10 million which when coupled with reinsurance equate to \$40 million to meet any unexpected blowout in claims. This, the BSA says, is more than adequate to prevent a call on the government for extra funds.

The Building Services Authority, at the request of the National Inquiry, provided the data used in this article.

