

4 July 2023

FY24 Reinsurance Program update

Suncorp (ASX: SUN | ADR: SNMCY) today provided an update on the successful placement of its FY24 reinsurance program and the expected impact to capital and earnings.

Suncorp Group CEO Steve Johnston said the Group would continue to be well protected through the comprehensive program placed for FY24.

"We continue to see a significant reassessment of risk by our reinsurance partners, which reflects elevated natural hazard activity in recent years both globally and in Australia and New Zealand. This, combined with broader inflationary pressures across the economy, continues to impact the cost of reinsurance across the industry.

"This renewal again underscores the challenges facing the insurance industry in Australia and New Zealand. If the proposed sale of Suncorp Bank to ANZ is approved, Suncorp would become a dedicated insurer at a time when the value of insurance to the economy and the public has never been greater."

FY24 reinsurance program structure

The Group's reinsurance strategy aims to achieve the optimal balance between the cost of the program and acceptable levels of earnings and capital volatility. Consequently, changes have been made to ensure this balance is maintained in the context of the material hardening of the global reinsurance market in recent years.

The Group's maximum event retention increased to \$350 million (FY23: \$250 million) for a first large event and \$250 million for a second large event.

The main catastrophe program covers the Home, Motor and Commercial property portfolios across Australia and New Zealand. The cover provides protection for losses between \$350 million and \$6.4 billion (FY23: \$6.8 billion) and includes one full prepaid reinstatement. At \$6.4 billion, the FY24 limit remains in excess of the Australia and New Zealand regulatory requirements. The reduction on FY23 reflects the entry into the Cyclone Reinsurance Pool (CRP) in Australia and increased coverage from the EQCover in New Zealand (Toka Tu AKE EQC).

Group dropdown covers have also been purchased that reduce the second, third and fourth event retention to \$250 million.

An Australian dropdown program has also been placed that reduces the third and fourth event retention for events in Australia to \$150 million (FY23: \$100 million).

In New Zealand, buydown cover (including a prepaid reinstatement) has been 52% placed to provide cover between NZ\$100 million and the Group's maximum event retention (\$350 million). Placing the remaining 48% of the buydown cover was not economically viable, although opportunities to do so in future will be considered. In FY23 the buydowns provided cover down to NZ\$50 million for a first event and NZ\$25 million for a second event. The increase in retention is primarily a reflection of the increases in reinsurance costs following the Auckland floods and Tropical Cyclone Gabrielle that occurred during FY23.

Following comprehensive modelling on its cost and benefits, the aggregate excess of loss (AXL) cover has not been renewed.

The Group has also renewed its quota share arrangement ceding 30% from the Queensland home insurance portfolio. Suncorp maintains strong market share within this market and the quota share reduces concentration risk in this region. The Group also maintains comprehensive reinsurance cover for casualty and other property risk.

Mr Johnston said that various other forms of reinsurance cover, including a whole of account quota share, were considered and analysed. "We believe the cover that has been placed provides the best outcome, balancing optimal returns with an acceptable level of volatility."

Further details on the catastrophe reinsurance cover are set out in the Appendix.

Impact of FY24 reinsurance renewal

The hardening reinsurance market results in both increased reinsurance premiums and increased risk retention for FY24. Increased risk retention impacts both the natural hazard allowance and the amount of capital required to be held by the Group.

The combined cost of the FY24 catastrophe reinsurance premiums and the natural hazard allowance is expected to increase by approximately \$250 million or 12% from FY23. This reflects the hardening global reinsurance market and the impact of adverse weather events through the La Niña cycle in recent years across Australia and New Zealand.

The natural hazard allowance for FY24 is expected to increase to \$1,360 million (FY23: \$1,160 million) reflecting increased retention following the above changes to the reinsurance program and the inflationary claims environment, partially offset by the ceding of cyclone risk to the CRP.

Suncorp continues to reflect increased input costs, including the costs of placing its reinsurance program and the natural hazards allowance, into the pricing of its insurance policies, with a view to maintaining its underlying insurance margin within a 10%-12% range.

Impact on capital

The changes to the reinsurance program will result in an approximately \$340 million increase in the levels of capital required to be held by the Group's general insurance businesses, comprising:

- An increase in the Group's Insurance Concentration Risk Charge by \$100 million, in line with the increase in risk retention under the reinsurance program, with a CET1 capital impact of \$115 million.
- A 0.075x increase in the target CET1 capital ratio, increasing targets to 1.225 times the Prescribed Capital Amount (PCA), or approximately \$225 million.

In addition, the higher catastrophe reinsurance premiums and natural hazard allowance are expected to reduce Excess Technical Provisions in capital by approximately \$100 million. This impact is expected to reverse as pricing is adjusted and earned.

At the Group level the impact of the additional capital requirements will be partially offset by the previously disclosed capital benefit from the recognition of diversification benefits between Australia and New Zealand, bringing Suncorp's approach to capital targets in line with peers.

The Group's capital buffers and balance sheet have been managed in anticipation of the impacts of a hardening reinsurance market and are well placed to absorb the changes to its reinsurance program.

Cyclone reinsurance pool

Suncorp has joined the federal government's cyclone reinsurance pool as at 30 June 2023. Risk covered by the cyclone reinsurance pool has been transferred from reinsurers and Suncorp to the CRP from this date.

Other matters

Ahead of its FY23 financial results release on Wednesday, 9 August 2023, Suncorp also provides an update on the following specific items:

- The Group natural hazard experience for FY23 is estimated to be between \$1.25 billion and \$1.28 billion against an allowance of \$1.16 billion. Refer appendix for further details.
- The Group incurred restructuring costs of \$47 million in 2H23, primarily driven by the impact of flexible working arrangements on the real estate footprint.
- In investment income, risk free, credit spreads and inflation linked bonds mark-to-market movements were broadly in line with previously communicated sensitivities. For equities, experience was lower than the sensitivities by approximately \$15 million.

Bank sale

Suncorp is pleased to have reaffirmed its commitment to Queensland through a significant jobs and investment package agreed with the Queensland Government as part of the sale of Suncorp Bank to Australia and New Zealand Banking Group Limited.

The Australian Competition and Consumer Commission is expected to make its determination by 28 July 2023.

Authorised for lodgement with the ASX by the Suncorp Disclosure Committee.

ENDS

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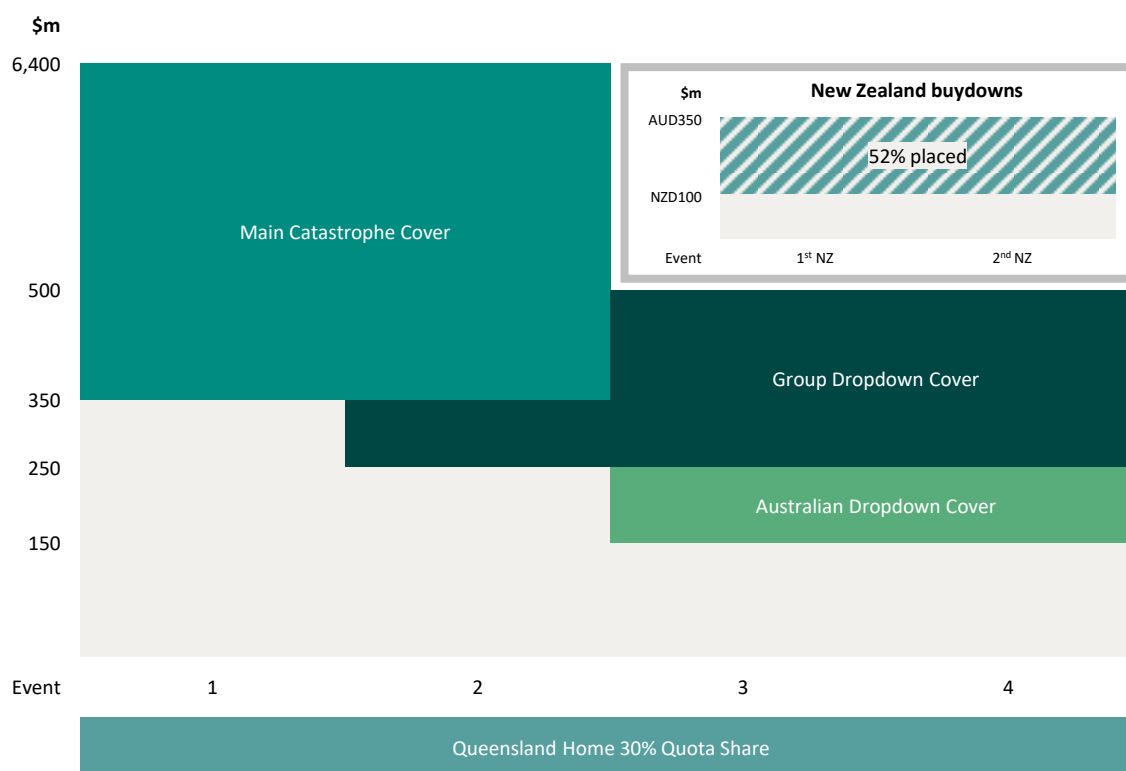
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Appendix

FY24 reinsurance program



Estimated FY23 Natural Hazard Experience (subject to final valuations)

Date	Event	Net costs \$M
Jul 22	Sydney East Coast Low	87
Aug 22	Southern Australia Winds and Storms	19
Aug 22	NZ North Island and Top of South Island Storm	15
Oct 22	VIC Rain and Floods	210
Oct 22	NSW VIC Rain and Floods	23
Oct 22	East Coast Rain and Hail	53
Nov 22	November Rain and Flood	68
Dec 22	Sunshine Coast Hail	48
Jan 23	NZ Auckland Floods	46
Feb 23	NSW Rain and Hail	56
Feb 23	NZ TC Gabrielle	23
Apr 23	April Rain and Hail	21
May 23	Newcastle Hail	92-100
May 23	NZ All NZ Heavy Rain and Flooding	12-16
Jun 23	June Rain & Hail	20-26
Total events over \$10 million		800-820
Other natural hazards		450-460
Total natural hazards		1,250-1,280
Less: allowance for natural hazards		(1,160)
Natural hazards costs above / (below) allowance		90-120