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AMI INSURANCE CONFIRMS ITS RE-INSURANCE PACKAGE NOW FINALISED, CATASTROPHE COVER NOW DOUBLED

AMI Insurance, the largest single insurer of homes in Christchurch, confirms its re-insurance package to take effect from tomorrow (Friday, July 1) has now been finalised and is in place. The company now has greater re-insurance protection than before, and is paying more for it.

Catastrophe re-insurance, for events such as the Christchurch earthquakes, has been more than doubled.

Meanwhile the company says it is trading profitably, and has begun the process of seeking new capital.

Chief Executive John Balmforth, who negotiated the re-insurance package with a consortium of international re-insurance companies, says it is now more difficult and more expensive for New Zealand insurance companies to purchase re-insurance, as the international providers have suffered from their exposure to the series of earthquakes in Christchurch, floods in Australia, a tsunami in Japan and other natural disasters around the world.

“We are very happy we have been able to secure the level of re-insurance we sought and the terms and conditions that form part of the package. Paying more for this enhanced level of protection is inevitable, and is a major factor in premium increases for AMI policy holders as they fall due.

“Everyone is having to pay more for insurance – that is just the new reality,” said Mr Balmforth.

Mr Balmforth acknowledged that AMI’s strong relationship with the international insurance panel, all of which are rated “A” or better, had resulted in AMI receiving outstanding support given the difficult market conditions.

CATASTROPHE COVER DOUBLED

AMI’s catastrophe re-insurance programme, which includes cover for earthquake, has been more than doubled – up from the \$600 million per event in the year to June 30, 2011 to \$1.3 billion per event in the year beginning July 1 through to June 30, 2012. The increased cover has an automatic reinstatement cover of up to \$1.3 billion should the first cover be called on during the year.

This catastrophe re-insurance programme provides protection across New Zealand, including Christchurch.

Mr Balmforth says public interest is naturally focussed on the catastrophe elements of the re-insurance package, but re-insurance is a normal part of the company’s day-to-day operations

throughout New Zealand, and AMI is pleased with the overall reinsurance package which takes effect from tomorrow (Friday).

In the year to June 30, 2011 AMI paid around \$46 million for re-insurance, including additional catastrophe re-insurance cover purchased following the September 2010 and February 2011 earthquakes in Christchurch.

“The new package we have now finalised is obviously more expensive, because of the higher level of catastrophe cover, and because re-insurance rates have increased. But we are happy that the package is prudent and appropriate, meeting the reasonable needs of policy holders and the company.”

Mr Balmforth said the average New Zealander is probably taking an interest in re-insurance for the first time, as it emerged a significant, but not well-understood factor in the earthquake catastrophes in Christchurch, which have impacted on all insurance companies in the market.

AMI held \$600 million of re-insurance in respect of the September 2010 earthquake, which proved more than adequate to cover claims. It held a further \$600 million in respect of the February 2011 earthquake, which will not be sufficient to cover fully claims from that catastrophe, and will necessitate the company also using some of its own \$350 million of reserves to help pay claims. To enable the company to use its own reserves in this way the company approached the Government and negotiated an agreement for the Government to contribute up to \$500 million in capital to the company if asked. This “backstop” agreement enables AMI to use its own \$350 million of reserves in settling claims, in addition to the \$600 million of re-insurance available, without being in breach of regulations governing the insurance industry. The company is confident it will secure new capital from other sources without asking the Government to do so.

Subsequent to the February 2011 earthquake, AMI increased its re-insurance cover to \$1 billion, enabling it to easily deal with the claims resulting from two earthquakes on June 13.

“We can settle all valid claims,” said Mr Balmforth. “We are enjoying strong support from our customers throughout the country and they will welcome confirmation that an enhanced re-insurance package is now in place.”

COMPANY CONFIDENT OF RAISING NEW CAPITAL

AMI Chairman Kerry Nolan says the company is trading profitably and has already begun the process of strengthening its balance sheet.

However the company is not involved in any discussions with other insurance companies about the possibility of investing in AMI, despite various comments in the media about such a possibility, said Mr Nolan.

“We have a number of options that would bring more capital into the company, but we are fortunate to have the support of the Government, which allows AMI to take a measured approach to this capital raising process.

“Until we have been able to assess all claims relating to the February earthquake, the full extent of our liabilities, and how much of our own reserves will be needed to help meet these claims, cannot be calculated.

“Nevertheless we have already established a task force and appointed Goldman Sachs, to examine our future capital needs and options,” said Mr Nolan.

“While we are able to call on the “backstop” agreement with the Government to provide more capital if necessary, we are confident that we will have secured whatever new capital we need, from other sources.”

AMI, established nearly 100 years ago, is the largest New Zealand owned insurance company, with more than 450,000 customers, 1.2 million policies, 73 branches and 21 agencies throughout the country.

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