

ACCC North Australia Home Insurance

Submitted by Economist Colin Dwyer **Confidential**

Thank you for the opportunity to provide information to the ACCC enquiry into North Australia Home insurance

For the purposes of this submission I sought input from the North Queensland community via a small survey. I have received many responses from home owners, car owners, strata insured, businesses and Insurance industry leaders.

This submission is provided in two sections Challenges and Solutions and an appendix that refers to the reconstruction costs after a catastrophe.

Challenges

- **Premium Increase**

Five examples

1. One person who lives on a hill and was not affected by flooding told me they had a \$1 premium increase in March 2019. CPI is 1.9%.
2. Another home owner with \$3,500 home and contents insurance (2018) and not affected by the recent floods told me their premium had almost doubled (March 2019).
3. A business owner (real estate) told me their clients had recent (March 2019) home insurance premium experience increases of 50%
4. A strata titled apartment provided evidence of recent premium increase at March 2019 renewal. Strata Insurance went from \$79k p/a to \$162k p/a (more than doubling). Another Apartments block pre the Townsville weather event 2019 went from \$69k p/a to \$99k p/a later reduced to \$92k; up 33%.
5. Strata challenges are not limited to Townsville properties. Mackay have also seen similar increases after the weather event (cyclone Debbie 2017).

- **New North Queensland's three reinsurers will recalibrate risk at end of Financial Year 2019** – Affordability challenges for some residents may occur after this date
- **Possible postcode abandonment**

Two respondents within the insurance industry told me that several suburbs/postcodes will struggle to find affordable home insurance premiums. They also told me that in general, insurance companies would like to abandon some Townsville postcodes, such as 4819 and 4811.

- **Reduced competition across new NQ**

Several respondents said after they had shopped around for home insurance that several insurers said they no longer offered premiums in North Queensland. This seems to have got worse after cyclone Yasi (2011).

- **Cyclone and Flood mitigation costs pre and post extreme events**

The costs of Cyclone rating homes in North Queensland and reducing the impact of strong winds and rain damage is costly and adds approximately 10 to 30% to the pre cost of building a home. This cost is also evident when reconstructing after a weather event and is also an added burden for insurers. After a small survey of construction firms, the recent weather event in Townsville is likely to add 10 to 50% (avg 20%) to the cost of some tradie rates and reconstruction costs. see appendix for more information.

- **Comparative total stamp duty & GST**

Post Cyclone Yasi (2011) the 26th parallel was implemented by insurance companies and only 3 reinsurers operate in the new NQ market. This splits one state (QLD) in to two separate insurance jurisdictions. Home insurance premiums in the Northern jurisdiction were on average three times what people in the southern jurisdiction were

paying. This meant Stamp Duty (9%) and GST (10%) were in absolute terms three times higher in the northern jurisdiction. If we see an average 50-100% increase in Home and Strata insurance from the flooding event in Townsville and Cyclone Debbie (Mackay 2017), this will mean Northern residents will pay around four to six times the Stamp Duty and GST that Southern Queensland residents pay.

- **Inefficient payouts that eventually need to be offset by premiums**

One respondent told me that there was evidence of overly generous payouts; positive at first glance but eventually the pool of insured residents has to pay for this. Essentially the story as told to me is - one person originally agreed with an accessor on a figure, only to be asked if he had more to include because he had not reached his insured limit. He eventually received 31% more than expected or around \$28,000 more. If this is wide spread (no other evidence available) and aggregated across the region it could be an unwanted burden on the existing pool of insured people. It is acknowledged that one response is not a good sample survey, but it may highlight the potential inefficiency in insurance assessing.

- **What happens to mortgage holders who need insurance but can't get appropriate insurance?**

There is anecdotal evidence of insurance companies doubling Townsville locations premiums, 'abandoning' locations and offering premiums that could represent 10% of the cost of the home. What happens to mortgage holders (over 20% of home owners in Townsville Census 2016) with compulsory home insurance requirements?

There's no silver bullet solution. New North Queensland needs a silver buckshot approach; a combination of significant solutions.

Solutions

- Access to a guaranteed insurer catastrophe scheme similar to the National Terrorism Scheme with \$13 Billion or creation of separate North Australia catastrophe scheme arpc.gov.au
- Increase competition by legislating for the removal of insurer's policy of abandonment of 26th parallel, but in conjunction with access to the National Terrorism Scheme.
- Substantial mitigation, such as levies and drains. This may require resumption of homes in some locations, such as Idalia (postcode 4811).
- Set amount of Stamp duty paid by all Queenslanders instead of 2 separate areas in one state.
- More efficient and audited payouts by insurance companies

Conclusion

Individually these solutions won't solve the northern Australia home insurance challenge, they won't dampen rises in cost of living and individually they won't stop significant net internal migration away from North Australia.

Together, they comprise a solid solution to the challenge of rising and unaffordable home insurance. Northerners need to be given a reason to stay and work in the productive north; not a reason to leave and add to congested capital cities.

Appendix 1

Townsville Tradie Rates Expected to Rise

Tradie pay rates in Townsville are expected to rise over the coming months. The rate rise is linked to the recent floods and subsequent extensive work required to be completed by local tradies and panel builders from outside of Townsville. It's also linked to the pre-existing anecdotal evidence of skills gaps and shortages in some trades in Townsville. Many skilled tradespeople will be required to reconstruct the significant flooded parts of Townsville. The current residential vacancy rate is extremely tight, putting a limit on the capability of out of town trades to come in and take advantage of the massive looming work load.

There is a significant amount of flood related reconstruction work in Townsville. Insurance company AON estimates around \$1b worth of reconstruction flood related work. Most reconstruction work hasn't yet started. Townsville needs to consider how it is going to fill the expected skilled trades gaps and where they are going to house the battalion of Tradies required to rebuild significant parts of North Australia's largest city.

A recent small sample survey of industry leaders and trades-based businesses was completed early this month, April 2019. It found 50% of respondents said they already had evidence, of 10-50% increase in most finishing trades pay rates. Forty percent (40%) of respondents indicated they expected trade pay rates to increase further over the next 3-6 months (this happened in Mackay after Cyclone Debbie) and only 10% thought that Tradie pay rates would remain steady at their current rates.

Finishing trades are expected to have the highest pay rate increase; these trades include

- Plasterers
- Painters
- Carpet Layers
- Tilers
- Cabinet Makers

One Townsville based building business said *'they had come to an agreement with their contractors that their rates will stay the same for works not related to the floods. The insurance repair works will be approximately 10% higher for trades such as carpenters, plasterers, painters, waterproofers & tilers. Cabinet makers & stone masons will be up a few % as well. Electrical, refrigeration, plumbing & glazing will be similar to pre-flood rates.'*

Another Townsville respondent indicated that *they were already experiencing increases of 20%-30% in the finishing trades pay rates. That 70% of panel builders were from outside of Townsville and this was where the pressure for industry wide increases were coming from. He expected these rates to have a flow on impact to new house prices (5%) and commercial construction (10% to 15%) generally.*

Many more respondents indicated they expected trade pay rates to increase as soon as the 'panel builders' started reconstruction work and that pay rates for certain trades could rise from \$35/hour to over \$40/hour; with an average hourly rate rise of 20%.

All acknowledged that no one will really know where the rates will end up until all the massive reconstruction work gets handed out. *"another storm is coming"*.

The silver lining is that there is about to be lots of money flowing around and a higher level of employment rates in the trade sectors of Townsville. This economic impact will assist in providing Townsville with the stimulus needed to support the pending Federal government commitments to capital works expenditure.

Last year DS Economics recommended, in a report to the federal government and local entities, that a plan to attract skilled workers to Townsville strongly be considered. The report identified significant number of skilled workers required to build multiple major projects, with most projects commencing in 2019.

Total respondents 13

Combined local worker and business owner representation over 2,500(est)

Contact

Colin Dwyer

Economist

Confidential