



6 September 2019

ACCC Northern Australia Insurance Inquiry

*Submitted by email: [insurance@acc.gov.au](mailto:insurance@acc.gov.au)*

Insurance Australia Group (**IAG**)<sup>1</sup> welcomes the opportunity to make a submission to the ACCC's Northern Australia Insurance Inquiry Second Update [Report](#) and focus area 1: Measures to improve affordability and availability (**Focus Area 1**).

With more than 8.5 million customers and information on the majority of motor vehicles and domestic residences in our markets, we use our leadership position to understand and provide world-leading customer experiences, making communities safer and more resilient for the future.

Our purpose is to make your world a safer place. We recognise that our role extends beyond transferring risk and paying claims. Our purpose drives our business to work collaboratively with the community to understand, reduce and avoid risk, and to build resilience and preparedness. This results in better outcomes for the community and means fewer claims and lower costs for our business.

We work collaboratively with government, industry bodies and Australian and international organisations on a range of topics and issues that relate to our customers, our people and the community. These include climate change, disaster response and resilience, and diversity, inclusion and belonging.

IAG agrees with the Australian Government that tackling the problem of insurance affordability in northern Australia is a complex issue and requires action by all stakeholders, including State and Territory Governments, insurers, business and residents.<sup>2</sup>

However, we do not believe government intervention in the form of government underwritten schemes for insuring against natural perils (whether the entity is mutual or government-owned) is

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<sup>1</sup> IAG is the parent company of a general insurance group with controlled operations in Australia and New Zealand. Our businesses underwrite over \$11 billion of premium per annum, selling insurance under many leading brands, including: NRMA Insurance, CGU, SGIO, SGIC, Swann Insurance and WFI (in Australia); and NZI, State, AMI and Lumley Insurance (in New Zealand).

<sup>2</sup> Government's [response](#) to Northern Australia Insurance Premiums [Taskforce](#) (**Taskforce**) and General Insurance Senate Inquiry.

the right solution to tackling the issue of affordability and availability of insurance in northern Australia.

The Treasury's Background Paper prepared for the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry<sup>3</sup> stated:

"In relation to issues around affordability and availability of insurance cover for natural disasters and other risks, successive Australian governments have generally held to a view that major intervention in private insurance markets, such as by mandating that certain types of insurance cover be provided, or by government subsidisation of premiums, or government participation in markets, can only be justified where there is a clear market failure."<sup>4</sup>

The Treasury also noted:

"Governments have chosen not to make such interventions in the market to address issues with natural disaster cover, generally citing the potential cost, the absence of clear market failure, the difficulty in exiting such arrangements and a preference for more sustainable solutions based on mitigation of risk."<sup>5</sup>

IAG does not believe there is a market failure in northern Australia to warrant the type of government intervention noted above. Instead, we believe the most effective and sustainable solution to address longer-term insurance affordability, accessibility and participation in northern Australia is through:

- the removal of all state and territory government taxes and duties on general insurance products,<sup>6</sup> and
- a nationally coordinated and well-resourced disaster resilience program that reduces the impact of extreme weather events.<sup>7</sup>

Our submission examines the arguments in support of disaster mitigation funding and a possible means to implement this measure.

### **The rationale for disaster mitigation funding**

When it comes to natural disasters, IAG has continually expressed the view that prevention is better than cure. This is supported by the Final Report of the Northern Australia Insurance

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<sup>3</sup> Natural Disaster Insurance, Background [Paper](#) 20, The Treasury, June 2018 (prepared for the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry) (**Treasury Royal Commission Response**).

<sup>4</sup> Treasury Royal Commission [Response](#), page 4.

<sup>5</sup> Treasury Royal Commission [Response](#), page 5.

<sup>6</sup> In an economic analysis provided by Dr Richard Tooth of Sapere Research Group (which can be found at Appendix 2 of IAG's [submission](#) to the [Taskforce Interim Report](#) 2015), Dr Tooth stated that "the affordability of insurance in northern Australia (and Australia) is significantly adversely impacted by the imposition of state-based premium taxes." On the effect of state taxes on insurance premiums, Dr Tooth, in his 2011 paper, 'Flood insurance: economics and issues', remarked that "[t]here is no economic rationale for the [state government-imposed] taxes. These taxes are inequitable, inefficient and discourage the take-up of insurance. Successive reviews – the IPART review of State Taxes (IPART 2008), the Henry Tax review (AFTS 2009) and the Victorian Bushfire Royal Commission (VBRC 2010) – have recommended that they should be removed." More [recently](#), the Government urged the Western Australian, Queensland and the Northern Territory governments to abolish inefficient stamp duties, strata commissions and other levies on general insurance premiums stating that these taxes increase the cost of insurance for policyholders and can lead to under or non-insurance. Similarly, the ACCC's Northern Australia Insurance Inquiry First Interim [Report](#) recommended the governments of Western Australia, the Northern Territory and Queensland abolish stamp duties on home, contents and strata insurance products.

<sup>7</sup> The Northern Australia Insurance Premiums [Taskforce \(Taskforce\)](#) Final [Report](#) November 2015 (**Taskforce Final Report**) (on page xiii) states "[f]urther, without mitigation, the benefits of any measures taken by the Government to lower premiums would be reversed upon Government exit." This statement shows the importance of mitigation in addressing affordability issues.

Premiums Taskforce which found that “[m]itigation to reduce the risk of damage from cyclones is the only way to reduce premiums on a sustainable basis.”<sup>8</sup> Most importantly, the Australian Government accepted this finding.<sup>9</sup>

Unfortunately, successive governments have underinvested in mitigation, instead favouring recovery efforts. As noted in The Australian Business Roundtable for Disaster Resilience & Safer Communities commissioned Paper,<sup>10</sup> our nation has invested an estimated \$50 million each year in mitigation measures to improve our communities’ resilience to natural disasters. In contrast, \$560 million has been the average annual spend on recovery measures. That means, for every \$10 spent on post-disaster recovery, only \$1 is spent on measures to improve the safety of our communities prior to disasters.<sup>11</sup>

The Productivity Commission provided some insights into why governments underinvest in mitigation when it said “government action is not always in the best interests of the community (government failure). Research shows that natural disaster policy is beset by political opportunism and short-sightedness (myopia), which biases how funding is allocated to natural disaster risk management. Politicians can be quick to provide generous post-disaster assistance, which provides immediate, observable and private benefits to individuals and has strong political salience. By contrast, the political incentives for mitigation are weak, since mitigation provides public benefits that accrue over a long time horizon. Over time, this bias creates entitlement dependency and undermines individual responsibility for natural disaster risk management.”<sup>12</sup>

Given the Government’s acceptance<sup>13</sup> of the finding in the Taskforce Final Report (i.e. mitigation is the only way to reduce premiums on a sustainable basis), we urge the Government to commit to increasing mitigation funding.

In fact, committing additional funding makes economic sense because there is a significant economic impact in maintaining the status quo. The Australian Business Roundtable for Disaster Resilience & Safer Communities commissioned Paper found that a simple cost-benefit analysis demonstrates how government funds would be saved over the longer term by placing a greater level of investment in pre-disaster resilience measures. It found that a mitigation program of expenditure would incur costs in the order of \$5.3 billion over the period to 2050 (present value terms) but would generate budget savings in the order of \$12.2 billion for all levels of government (or \$9.8 billion when looking at the Australian Government budget only). If successfully implemented, it could see Australian and state government expenditure on natural disaster response fall by more than 50% by 2050.<sup>14</sup>

For this reason, IAG supports the Productivity Commission’s recommendation (Recommendation 3.5) for the Government to increase its funding to the state and territory governments for mitigation to \$200 million per year.<sup>15</sup>

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<sup>8</sup> [Taskforce Final Report](#), page xiii.

<sup>9</sup> Government’s [response](#) to the [Taskforce](#) and General Insurance Senate Inquiry.

<sup>10</sup> Deloitte Access Economics research Paper, ‘Building our nation’s resilience to natural disasters’, 2013, commissioned by The Australian Business Roundtable for Disaster Resilience & Safer Communities (**The Australian Business Roundtable for Disaster Resilience & Safer Communities commissioned Paper**).

<sup>11</sup> The Australian Business Roundtable for Disaster Resilience & Safer Communities commissioned [Paper](#), page 8.

<sup>12</sup> Natural Disaster Funding Arrangements, Productivity Commission [Inquiry Report](#), [Volume 1](#), No. 74, 17 December 2014 (**Productivity Commission Inquiry Report**).

<sup>13</sup> Government’s [response](#) to the [Taskforce](#) and General Insurance Senate Inquiry.

<sup>14</sup> The Australian Business Roundtable for Disaster Resilience & Safer Communities commissioned [Paper](#), page 21.

<sup>15</sup> Productivity Commission [Inquiry Report](#), page 39.

Of course, we also support recovery efforts and do not underestimate the positive impacts of recovery funding in helping our communities to rebuild after a natural disaster. As such, we believe a more balanced approach to spending on disaster mitigation and resilience measures and recovery and reconstruction after an event is required. This is a view shared by the Productivity Commission which recommended “an overhaul of the natural disaster funding arrangements in the form of a coherent policy package across recovery and mitigation funding, budget treatment of recovery costs, and accountability requirements for state and local governments.”<sup>16</sup>

### **Implementing an effective disaster mitigation program**

IAG believes a nationally coordinated and well-resourced disaster resilience program that reduces the impact of extreme weather events should be introduced in two stages:

- First stage – Encouraging property owners to undertake private mitigation works
- Second stage – Improving processes to facilitate investment in public mitigation works.

The first stage incentivises property owners and communities to take mitigation action. The second stage will help to further reduce the impact of natural disasters.

#### ***First stage***

IAG believes property owners should be encouraged to take steps to increase the resilience of their homes.

Many property owners are not aware of measures they can take to strengthen their property e.g. trimming overhanging branches or retrofit options. One way to increase awareness is via campaigns focused on providing more tailored information to property owners on mitigation options. The Productivity Commission noted that “[s]oft mitigation, like community education and other preparedness measures, can yield significant benefits over time where it modifies behaviour and results in the avoidance of disaster risk.”<sup>17</sup>

IAG works proactively to educate the community on the risk of natural disasters. Across the country we run joint campaigns with our community partners to encourage the community to prepare their homes to help prevent the risk of property damage through weather events. For example, our StormSafe campaign (in partnership with the SES) helps people minimise risks in their home when storms hit, reducing loss and claims. Approximately 90 per cent of people who saw our joint storm preparedness campaign reported taking preventative action, thereby reducing claims costs.

IAG is also helping to study the impact of tropical cyclones on North Queensland properties by sharing our claims data, expertise and funding. A research commissioned by IAG and Suncorp analysed strata and house property claims from previous cyclones to investigate potential mitigation measures to make homes in North Queensland more resilient. The resulting Cyclone Testing Station report<sup>18</sup> (**CTS Report**) revealed that 70 per cent of the strata property claims

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<sup>16</sup> Productivity Commission [Inquiry Report](#), page 15.

<sup>17</sup> Productivity Commission [Inquiry Report](#), page 22.

<sup>18</sup> A summary of the report, ‘North Queensland Study into Water Damage from Cyclones Project partners: IAG and Suncorp’, October 2018, can be found [here](#).

examined sustained damage caused by water ingress, despite the majority of properties withstanding severe structural damage. The study highlighted trends in post-event property damage and the importance of building design, home maintenance and pre-cyclone preparations in ensuring safety and security of life and property in the event of a natural disaster or severe weather event.

IAG believes insurers have a valuable role to play in contributing to community education efforts. We have taken steps to improve customer understanding of insurance and continue to work closely with consumer groups including tailored briefings, provision of maps and data as well as targeted consumer awareness seminars. A key part of these initiatives is to help consumers understand that price reflects risk.

IAG has also taken steps to increase access to information through various initiatives, such as the Report IAG commissioned with SGS Economics & Planning.<sup>19</sup> This is the first time population data and economic activity of all Local Government Areas (**LGAs**) across the nation have been overlaid with natural perils risk levels provided by the Insurance Council of Australia (**ICA**) and IAG. The aim of this report, and its accompanying interactive maps and data files, is to highlight the locations at the greatest risk of various natural perils and demonstrate how this risk intersects with economic activity and the communities' capacity to mitigate or respond to disasters. It identifies the LGAs with the greatest risk.

Unfortunately, awareness alone will not necessarily motivate property owners to undertake mitigation works. Many property owners are reluctant to invest in private mitigation in circumstances where the cost is ultimately borne by them. For this reason, we support governments, insurers and business working together to incentivise property owners to undertake mitigation works. They include:

- From Government – Directly subsidising mitigation works<sup>20</sup>
- From insurers – Providing premium discounts according to the level of mitigation works<sup>21</sup>
- From the building industry – Expanding the range of cost-effective and acceptable retrofit options.

## **Second stage**

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<sup>19</sup> IAG commissioned [Report](#), 'At what cost? Mapping where natural perils impact on economic growth and communities', IAG, November 2016. The Report analysed ICA data as well as IAG flood data and includes interactive maps and data files (which can be found [here](#)).

<sup>20</sup> We support initiatives such as those introduced by the Queensland State Government and Suncorp to encourage residents to take steps to make their homes more resilient to cyclones. The Queensland Government's \$20 million Household Resilience Program is intended to assist eligible home owners in coastal parts of Queensland to improve the resilience of their homes against cyclones. Owner-occupiers that live in a house built before 1984, located within 50 kilometres of the coastline from Bundaberg to the Queensland / Northern Territory border, may be entitled to a Queensland Government grant of 75 per cent of the cost of improvements, up to a maximum \$11,250.00 including GST. Building improvements undertaken as part of the program may also reduce home insurance premiums for home owners.

<sup>21</sup> IAG broadly supports the proposition that mitigation works being undertaken to a property should put downward pressure on premiums. However, there are some design issues that need to be addressed and these are set out in our [response](#) to Draft Recommendations 12 and 13 of the ACCC's Northern Australia Insurance Inquiry First Interim [Report](#). One potentially useful approach could be to develop a form of resilience rating given to buildings, and especially external claddings and internal walls in flood prone areas – similar to the star ratings systems used for energy efficiency and water use. A five-star cladding, solar panel or air conditioner should be able to withstand the wind effects of a Category 5 cyclone, for example. Once resilience ratings are widely in use there would be scope for the insurance industry to offer lower premiums to those people in more resilient buildings compared to those in unrated buildings, thereby providing a financial incentive for individuals to try to self-protect and a tool for the construction industry to offer more resilient buildings to clients.

IAG believes it is important to improve the collection and co-ordination of natural hazard data (both mapping and modelling) at a national level. In our view, accurate, current, and accessible natural hazard data (**Accurate Hazard Information**) is critical to understanding natural disaster risk and informing state and local land use planning.

The ICA has developed 'DataGlobe'<sup>22</sup> which provides visualisations of collected natural hazard data (earthquake, bushfire, flood, cyclone, hail, storm, etc) that can be used to provide a meaningful insight into natural perils, risk-based insurance premiums and the mitigation measures that may reduce the impacts of disaster in specific locations. DataGlobe provides a communications resource for the ICA and member companies, including IAG, that are involved in dialogue with the community and governments about the relationship between the cost of insurance cover for individuals and their exposure / vulnerability to natural perils. DataGlobe also provides a simple mechanism for insurance company experts to access the raw hazard data collected by the ICA on their behalf.

While these initiatives are important, the credibility of natural hazard data is often questioned because of the variations between individual insurers and local councils. In our view, natural hazard data produced by governments and agencies remains the most relevant source of data for the insurance industry. As such, we believe it is the responsibility of the Government to provide Accurate Hazard Information via a national centralised platform to ensure consistency, reliability and public trust in the information.

Access to such information will:

- better enable local governments to undertake effective public mitigation works (i.e. construction of flood levees or fire breaks and enhanced monitoring, emergency warning and evacuation procedures) in geographical areas that are subject to flood or bushfire risk, thereby reducing the risk exposure of properties situated in those areas<sup>23</sup>
- reduce public expenditure on rebuilding communities after flood or fire
- allow planning authorities to limit development in high storm-surge risk areas
- allow insurers to underwrite the risks with maximum certainty (which then puts downward pressure on premiums in those areas that have benefited from public mitigation works)
- ensure communities are less exposed to the social and economic disruption caused by flooding and fire.

Accurate Hazard Information can also be used to amend / strengthen regulatory building standards with the aim of protecting property<sup>24</sup> and reducing losses from the impacts of natural hazards. The building code can be amended to require new builds (or alterations to existing buildings) in 'at-risk' areas to withstand the relevant hazards. It can also specify the types of resistant materials to be used in addition to the method of construction. For example, it was

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<sup>22</sup> DataGlobe is a pilot initiative. It is available at: <https://www.icadataglobe.com/> (accessed on 6 September 2019).

<sup>23</sup> There is a very real risk that, without appropriate planning and infrastructure, regions which are vulnerable to severe weather events, may become 'uninsurable'. For example, following the 2011 floods in Queensland, Suncorp ceased providing new policies in the towns of Roma and Emerald. However, following the construction of a flood levee, Suncorp started writing new business in Roma. The clear message sent by the insurer in this instance is that the risk of flood was beyond its risk appetite, but the construction of flood mitigation infrastructure reduced that risk to an acceptable level as to enable policies to be written.

<sup>24</sup> Traditionally, the building code and standards have focused mainly on protecting life and safety. The CTS Report details financial losses due to damage from wind driven rain entering through the building envelope as a result of minimal performance requirements in current building standards.

discovered that changing the building code for South East Queensland may reduce damage from a cyclone by around 66%.<sup>25</sup>

We believe all levels of government – led by the Australian Government – should boost their investment in mitigation infrastructure that will protect assets like homes and businesses and lower the cost of risk. Of course, IAG is willing to work with local governments that experience natural hazards to assist in understanding the vulnerability of the risks and examine cost-effective mitigation measures.

IAG also believes Accurate Hazard Information should be readily accessible by householders and businesses, helping them understand the flood risk in their location. It also has significant economic value, as it reduces risk, will benefit planning authorities, banks, financiers and developers, and allow insurers to underwrite the risks with maximum certainty.

### **Other submissions and commissioned papers**

We note the potential measures that could benefit consumers in northern Australia by improving the affordability and availability of insurance (as set out in the ACCC's Northern Australia Insurance Inquiry Second Update [Report](#)) were comprehensively considered in the Taskforce Final Report. IAG provided comprehensive responses to these measures in our submission<sup>26</sup> to the Taskforce which we refer to in responding to the questions on Focus Area 1.

We also refer the ACCC to the following documents that respond to some of the issues identified in Focus Area 1:

- Our [submission](#) to the ACCC Northern Australia Insurance [Inquiry – Issues Paper](#)
- A Deloitte Access Economics research [Paper](#) commissioned by The Australian Business Roundtable for Disaster Resilience & Safer Communities, 'The economic cost of the social impact of natural disasters'
- Our [submission](#) to the Treasury [Consultation Discussion Paper](#), 'Addressing the high cost of home and strata title insurance in North Queensland'
- Our [submission](#) to the Productivity Commission [Inquiry Report](#)
- The Australian Business Roundtable for Disaster Resilience & Safer Communities commissioned [Paper](#).

If you have any questions or require any further information please do not hesitate to contact Vincent Lee, Principal, Public Policy & Industry Affairs on (02) 9292 3715 or [vincent.lee@iag.com.au](mailto:vincent.lee@iag.com.au).

Yours sincerely



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<sup>25</sup> This figure was based on historical analysis of the performance of housing in northern Queensland that was built before and after the introduction of similar standards.

<sup>26</sup> IAG's [submission](#) to the [Taskforce Interim Report](#) 2015 (includes (at Appendix 2) an economic analysis provided by Dr Richard Tooth of Sapere Research Group of the options outlined in that report (and related matters)).