# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Summary</strong></td>
<td>vii</td>
</tr>
<tr>
<td><strong>Recommendations</strong></td>
<td>xvii</td>
</tr>
<tr>
<td>Making it easier to search for, and compare, insurance products</td>
<td>xvii</td>
</tr>
<tr>
<td>Choosing the right amount of cover</td>
<td>xx</td>
</tr>
<tr>
<td>Dealing with conflicts of interest</td>
<td>xxii</td>
</tr>
<tr>
<td>Addressing immediate affordability concerns</td>
<td>xxiii</td>
</tr>
<tr>
<td>Improving consumers’ rights</td>
<td>xxv</td>
</tr>
<tr>
<td>Reducing risk and building better</td>
<td>xxvii</td>
</tr>
<tr>
<td><strong>1. Setting the scene</strong></td>
<td>1</td>
</tr>
<tr>
<td>1.1 Our terms of reference</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Our inquiry process</td>
<td>2</td>
</tr>
<tr>
<td>1.3 Information that has informed our inquiry</td>
<td>4</td>
</tr>
<tr>
<td>1.4 Notes about our approach to policy-level and risk rating data</td>
<td>6</td>
</tr>
<tr>
<td>1.5 Approach to case studies</td>
<td>7</td>
</tr>
<tr>
<td>1.6 Special reports on Townsville</td>
<td>7</td>
</tr>
<tr>
<td>1.7 Structure of this report</td>
<td>7</td>
</tr>
<tr>
<td>1.8 Acknowledgements</td>
<td>10</td>
</tr>
<tr>
<td><strong>2. Market structure</strong></td>
<td>12</td>
</tr>
<tr>
<td>2.1 Insurance markets in northern Australia</td>
<td>12</td>
</tr>
<tr>
<td>2.2 How home, contents and strata insurance products are supplied</td>
<td>17</td>
</tr>
<tr>
<td><strong>3. Insurance prices in northern Australia</strong></td>
<td>22</td>
</tr>
<tr>
<td>3.1 How we have reported on premium trends</td>
<td>24</td>
</tr>
<tr>
<td>3.2 The price of home and contents insurance in northern Australia</td>
<td>24</td>
</tr>
<tr>
<td>3.3 The price of strata insurance in northern Australia</td>
<td>50</td>
</tr>
<tr>
<td>3.4 Stamp duties and other taxes</td>
<td>54</td>
</tr>
<tr>
<td>3.5 Summary of insurance prices in northern Australia</td>
<td>59</td>
</tr>
<tr>
<td><strong>4. How insurers set premiums</strong></td>
<td>60</td>
</tr>
<tr>
<td>4.1 Overview of premium pricing</td>
<td>61</td>
</tr>
<tr>
<td>4.2 Insurers’ approach to technical pricing</td>
<td>61</td>
</tr>
<tr>
<td>4.3 Technical premium components in northern Australia</td>
<td>71</td>
</tr>
<tr>
<td>4.4 Overall view of insurers’ technical pricing</td>
<td>84</td>
</tr>
<tr>
<td>4.5 Premium adjustments</td>
<td>84</td>
</tr>
<tr>
<td>4.6 Discounts, surcharges, taxes and duties</td>
<td>85</td>
</tr>
<tr>
<td><strong>5. The costs of providing insurance</strong></td>
<td>87</td>
</tr>
<tr>
<td>5.1 Categories of insurer costs</td>
<td>87</td>
</tr>
<tr>
<td>5.2 Gross claims expense for all home and contents products</td>
<td>90</td>
</tr>
<tr>
<td>5.3 Gross claims expense for strata products</td>
<td>93</td>
</tr>
<tr>
<td>5.4 Claims forecasting</td>
<td>96</td>
</tr>
<tr>
<td>5.5 Claims causes</td>
<td>97</td>
</tr>
<tr>
<td>5.6 Reinsurance</td>
<td>100</td>
</tr>
<tr>
<td>5.7 Underwriting costs</td>
<td>102</td>
</tr>
<tr>
<td>5.8 Commission costs</td>
<td>102</td>
</tr>
<tr>
<td>Chapter</td>
<td>Title</td>
</tr>
<tr>
<td>---------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>6.</td>
<td><strong>Profitability of insurers in northern Australia</strong></td>
</tr>
<tr>
<td>6.1</td>
<td>Our approach to assessing insurer profitability</td>
</tr>
<tr>
<td>6.2</td>
<td>Profitability in northern Australia has been poor</td>
</tr>
<tr>
<td>6.3</td>
<td>Northern Australia profitability trends</td>
</tr>
<tr>
<td>6.4</td>
<td>Northern Australia remains less profitable than the rest of Australia</td>
</tr>
<tr>
<td>6.5</td>
<td>Profits vary significantly by region, product and insurer</td>
</tr>
<tr>
<td>6.6</td>
<td>Profitability in relation to the broader general insurance category</td>
</tr>
<tr>
<td>7.</td>
<td><strong>Competition in northern Australian insurance markets</strong></td>
</tr>
<tr>
<td>7.1</td>
<td>Previous findings on competition</td>
</tr>
<tr>
<td>7.2</td>
<td>Concentration and market share</td>
</tr>
<tr>
<td>7.3</td>
<td>How insurers compete in insurance markets</td>
</tr>
<tr>
<td>7.4</td>
<td>Concentration risk is softening competition in high risk areas</td>
</tr>
<tr>
<td>7.5</td>
<td>Consumer switching</td>
</tr>
<tr>
<td>7.6</td>
<td>Current state of competition in insurance markets</td>
</tr>
<tr>
<td>8.</td>
<td><strong>Measures to improve affordability and availability</strong></td>
</tr>
<tr>
<td>8.1</td>
<td>Background</td>
</tr>
<tr>
<td>8.2</td>
<td>The scale and causes of affordability and availability issues in northern Australia</td>
</tr>
<tr>
<td>8.3</td>
<td>Government reinsurance pools</td>
</tr>
<tr>
<td>8.4</td>
<td>Government insurers</td>
</tr>
<tr>
<td>8.5</td>
<td>Direct subsidies, concessions and rebates</td>
</tr>
<tr>
<td>8.6</td>
<td>Mitigation programs</td>
</tr>
<tr>
<td>8.7</td>
<td>Licence or authorisation conditions</td>
</tr>
<tr>
<td>8.8</td>
<td>Summary of conclusions</td>
</tr>
<tr>
<td>9.</td>
<td><strong>Detailed case studies on sub-regions in northern Australia</strong></td>
</tr>
<tr>
<td>9.1</td>
<td>The case study areas</td>
</tr>
<tr>
<td>9.2</td>
<td>Case study 1—Townsville—the 2019 floods</td>
</tr>
<tr>
<td>9.3</td>
<td>Case study 2—Cooktown</td>
</tr>
<tr>
<td>9.4</td>
<td>Case study 3—Mackay to Airlie Beach—areas affected by Cyclone Debbie</td>
</tr>
<tr>
<td>9.5</td>
<td>Case study 4—Port Hedland</td>
</tr>
<tr>
<td>9.6</td>
<td>Case study 5—Kununurra</td>
</tr>
<tr>
<td>9.7</td>
<td>Case study 6—Katherine</td>
</tr>
<tr>
<td>9.8</td>
<td>Case study 7—Alice Springs</td>
</tr>
<tr>
<td>9.9</td>
<td>Case study 8—Roma—the impact of public mitigation</td>
</tr>
<tr>
<td>10.</td>
<td><strong>The use of premium adjustments and their impact</strong></td>
</tr>
<tr>
<td>10.1</td>
<td>Background</td>
</tr>
<tr>
<td>10.2</td>
<td>Scale of premium adjustments</td>
</tr>
<tr>
<td>10.3</td>
<td>Insurers use different types of premium adjustments</td>
</tr>
<tr>
<td>10.4</td>
<td>Premium adjustments for new and renewing customers</td>
</tr>
<tr>
<td>10.5</td>
<td>Impact of premium adjustments on consumers and price signals</td>
</tr>
<tr>
<td>11.</td>
<td><strong>Barriers to expansion and re-entry</strong></td>
</tr>
<tr>
<td>11.1</td>
<td>Background</td>
</tr>
<tr>
<td>11.2</td>
<td>The key barriers to expansion or re-entry</td>
</tr>
<tr>
<td>12.</td>
<td><strong>Understanding non-insurance</strong></td>
</tr>
<tr>
<td>12.1</td>
<td>Our approach</td>
</tr>
<tr>
<td>12.2</td>
<td>Estimating home building non-insurance: the Census approach</td>
</tr>
</tbody>
</table>
## 12.3 Estimating and understanding non-insurance: a survey approach 280

12.4 Estimating the value (sum insured) of home buildings and contents 285

12.5 Loss or damage from an insurable event in northern Australia 286

12.6 Do insurance premiums cause financial pressure? 292

12.7 Industry initiatives to provide more accessible insurance to lower-income households 297

### 13. The impact of building specifications on premium pricing 301

13.1 Background 302

13.2 The impact of building characteristics on insurance 304

13.3 Building standards in Australia 311

13.4 Helping consumers and insurers go beyond the minimum standards 323

### 14. Land use planning and future insurance affordability and availability 330

14.1 Background 331

14.2 Land use planning frameworks 332

14.3 Is the affordability and availability of insurance taken into account? 335

14.4 Information used to assess natural hazard risks 339

14.5 Factors affecting planners’ decisions about natural hazard risks 341

14.6 Improving information sharing between insurers and planners 348

### 15. Supporting customers experiencing payment difficulties 361

15.1 Our approach 362

15.2 Payment difficulties can lead to underinsurance and non-insurance: what we already know 363

15.3 Paying by the month helps with budgeting but often costs more 364

15.4 Should insurers offer Centrepay or fortnightly payment options? 370

15.5 How insurers are currently required to help customers experiencing payment difficulties 377

15.6 Why should insurers provide more support to customers experiencing premium payment difficulties? 383

### 16. Challenges facing strata insurance markets in northern Australia 390

16.1 Structure of strata insurance markets in northern Australia 391

16.2 Strata insurance premiums in northern Australia 397

16.3 Competition in northern Australian strata insurance markets 416

### 17. Product characteristics, terms and conditions 424

17.1 What is an insurance contract? 424

17.2 The concept of ‘standard cover’ 427

17.3 There is standard cover, but not standard definitions 432

17.4 Improving ‘standard cover’ and the use of standard definitions 435

### 18. Consumer information and choices 440

18.1 Towards transparency and effective disclosure 441

18.2 Making it easier for consumers to understand insurance 444

18.3 Responding to the pressure of price 455

18.4 Addressing information asymmetry in insurance 463

### 19. Intermediaries and other third parties 470

19.1 The businesses that operate between insurers and consumers 470

19.2 Commissions and conflicts 475
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>20. Claims processes and dispute resolution</td>
<td>488</td>
</tr>
<tr>
<td>20.1 How do claims work?</td>
<td>489</td>
</tr>
<tr>
<td>20.2 Assessing a claim and the role of loss adjusters</td>
<td>489</td>
</tr>
<tr>
<td>20.3 Settling a claim</td>
<td>492</td>
</tr>
<tr>
<td>20.4 Delays in claims handling a cause for concern</td>
<td>505</td>
</tr>
<tr>
<td>20.5 Complaints and dispute resolution</td>
<td>508</td>
</tr>
<tr>
<td>21. Mitigation</td>
<td>514</td>
</tr>
<tr>
<td>21.1 Why is mitigation important?</td>
<td>514</td>
</tr>
<tr>
<td>21.2 Mitigation at a household level</td>
<td>516</td>
</tr>
<tr>
<td>21.3 Public mitigation</td>
<td>526</td>
</tr>
<tr>
<td>21.4 Developing and building for resilience</td>
<td>528</td>
</tr>
<tr>
<td>Appendix A: Notice from the Treasurer</td>
<td>532</td>
</tr>
<tr>
<td>Appendix B: Insurers’ brands and intermediaries</td>
<td>533</td>
</tr>
<tr>
<td>Appendix C: Measures used in Australia and overseas</td>
<td>538</td>
</tr>
<tr>
<td>Appendix D: Small business insurance in Townsville and the February 2019 floods</td>
<td>548</td>
</tr>
<tr>
<td>Glossary of abbreviations and acronyms</td>
<td>558</td>
</tr>
</tbody>
</table>
Summary

Extreme and destructive weather events are a common occurrence in northern Australia. The threat of seasonal storms, cyclonic activity and floods characterise daily living. For the small communities, towns and regional cities in northern Australia that are striving to grow and flourish, the affordability of home, contents and strata insurance is increasingly recognised as a major challenge to their liveability and prosperity.

The Australian Government asked us to undertake this three-year inquiry commencing in 2017 to help address concerns about insurance affordability and availability in northern Australia and consider how to promote more informed and more competitive insurance markets. This final report concludes our inquiry, bringing together all of our significant analysis and recommendations.

Over the past three years, we have examined the markets for home, contents and strata insurance in northern Australia in a level of detail that had not been done by any review before us. We have collected and analysed an extensive volume of documents and data from insurers, and consulted widely, including with industry, local residents, communities and consumer representative groups across northern Australia.

Our analysis shows that home, contents and strata premiums are, on average, considerably higher in northern Australia than the rest of Australia and have increased more over the last decade. Rates of non-insurance are increasing and cost is the main reason.

There are genuine reasons why insurance premiums are more expensive in northern Australia. The region is riskier and the cost to serve it can be very high. But insurance markets in northern Australia are not working as effectively as they could be for consumers and this is exacerbating affordability concerns.

This report sets out in detail our analysis of the operation of the markets for home, contents and strata insurance in northern Australia. Importantly, we make wide-ranging recommendations to help address the problems that we have identified. Many of these recommendations could also benefit consumers and insurance markets nationally, if more broadly applied.

There have been calls for government intervention through a range of measures to address acute affordability and availability issues in northern Australia. We investigated the relative merits of a range of measures including government reinsurance pools, government insurers or mutuals, direct subsidies, mitigation programs and licence conditions. If governments want to intervene to provide immediate relief to consumers facing acute affordability pressures, they should consider direct subsidies over other measures. Direct subsidies have the greatest potential to work in a targeted way to relieve some of the acute affordability and cost of living pressures facing consumers in higher risk areas, at a lower cost and more effectively than other measures.

Home and contents insurance premiums are considerably higher, and have risen faster, in northern Australia

Average premiums are almost double those in the rest of Australia

No matter how measured, the cost of home, contents and strata insurance is higher for consumers living in northern Australia. In 2018–19, the average premium for combined home and contents insurance across northern Australia was approximately $2,500, almost double that for the rest of Australia ($1,400). For home (only) insurance, average premiums were around $1,900, again around double the rest of Australia ($900). For contents (only) insurance, the northern Australian average of $600 also exceeded the average for the rest of Australia ($400). The higher average excess levels in northern Australia make the premium differences between northern Australia and the rest of Australia even more stark.
High risk areas have a substantial proportion of consumers paying far above these averages. For example one quarter of households in Port Hedland were paying over $6,200 for combined home and contents insurance. Many parts of northern Australia with lower average premiums are still paying more for their insurance than most other parts of the country.

Strata insurance premiums in northern Australia also remain higher than in the rest of Australia. Strata insurance concerns appear to be most prominent for a small subset of strata properties in northern Australia, based on their size, location, age, and construction material. For these properties, strata insurance can be very expensive and with more limited availability.

**Average premiums have increased much faster than in the rest of Australia**

Between 2007–08 and 2018–19, average home insurance premiums rose in real terms by 178% in northern Australia (compared to a 52% increase in the rest of Australia) and combined home and contents insurance by 122% (compared to 71% in the rest of Australia). Average contents insurance premiums increased by 33% in northern Australia, but decreased by 3% in real terms in the rest of Australia. Many consumers across northern Australia experienced particularly sharp price increases in the period up to 2012–13.

Premium increases have slowed, and in some cases average premiums may even be decreasing. However, this may be in part due to higher-risk properties dropping out of insurance markets altogether in response to high premiums, and may not fully reflect an overall improvement in affordability.

Average strata insurance premiums for properties with up to 10 units slightly decreased in recent years, and for properties with 11 to 20 units, they have remained fairly stable. However, for properties with 21 to 50 units, average premiums are trending upwards, and for properties with more than 50 units, average premiums have increased significantly.

**Excess levels are also generally higher**

Consumers in northern Australia have responded to higher premiums by selecting a higher excess. Average excess levels selected by policyholders in north Queensland and north Western Australia are around 50 to 60% higher than average excess levels selected by policyholders in the rest of Australia for home insurance and the building component of combined home and contents insurance (around $1,200 compared to around $700). This represents a sharp increase, coinciding with the period of premium growth. Ten per cent of consumers in the north Western Australia case study areas examined had an excess of over $5,000, and in north Queensland, over $4,000. Excesses of these levels would generally indicate insurance is predominantly purchased for the ‘worst case scenarios’.

**Higher risk of natural disasters in northern Australia is driving higher premiums**

The main driver of higher premiums in northern Australia is the higher natural peril risk.

Premium components for cyclone, and in some places flood, make up a large proportion of technical premiums (the insurer’s expected cost to supply insurance plus a margin) in northern Australia. Cyclone premium components are high for many policies in northern Australia, but are particularly large in north Western Australia.

Across all of northern Australia, flood components are smaller in scale on average. However, this is primarily because flood risk is not as widespread as cyclone risk. In high flood risk areas, flood components can be considerable. In one higher risk area, 10% of home and contents insurance customers have flood components of more than $1,230.

The difference between average retail premiums for home insurance between the lowest and highest cyclone risk rating level ranged from $1,150 and $3,975, depending on the insurer. For the top 10% of policies in the highest cyclone risk rating level, premiums can be over $4,700. For flood risk, the difference in average premiums ranged from $545 to $1,240, depending on the insurer.
Insurers recognise that climate change poses a risk to their business as it is likely to affect the frequency and intensity of natural peril risks. They are taking steps to better model its future effects, however it does not appear that climate change issues have significantly affected their pricing decisions to date as modelling is primarily based upon historic weather and claims data.

As premiums grow, so too does the amount consumers pay in stamp duty

As premiums rise, so too does the amount consumers are paying in stamp duty, which adds between 9 and 10% to premiums in northern Australia, on top of the GST-inclusive amount.

In 2018–19, consumers in northern Australia paid $79.6 million in stamp duty on their home, contents and strata insurance: $5.5 million in north Western Australia, $9.4 million in the Northern Territory, and $64.6 million in north Queensland.

The burden of stamp duties is falling more heavily on consumers exposed to greater natural disasters and other risks. We recommend the governments of Western Australia, the Northern Territory and Queensland abolish stamp duty on home, contents and strata insurance products. At a minimum, those governments should reduce the tax burden on consumers in higher risk areas by levying stamp duties with reference to the sum insured level, rather than the premium.

Insurers are using more granular data and sophisticated pricing techniques, exacerbating affordability problems for some consumers

Peril risk components of premiums are increasingly being set at the address level

Insurance has traditionally been about pooling risk across consumers. However better access to data, and more sophisticated analysis of that data, has enabled insurers in northern Australia to assess and price risk at an individual address level, rather than based on the average risk at a postcode or larger regional level. This is particularly the case for cyclone risk and also flood risk.

While address level pricing allows insurers to more accurately assess and price risk, it has resulted in very large increases to premiums for some customers in recent years. For lower risk customers, address-based pricing may have led to a premium reduction.

Premium adjustments can exacerbate affordability concerns

Insurers commonly adjust the technical premium. These adjustments often, but not always, increase premiums above the technical premium and are made for a range of reasons.

Insurers continue to monitor their exposure to high risk areas, or to particular peril types, and adjust premiums upwards where they want to limit their exposure. Insurers continue to monitor competitors’ pricing closely, and adjust their premiums in response to this. In particular, we observed insurers increase premiums where they consider they may be under-priced in an area. This can exacerbate affordability concerns in pockets of northern Australia facing overall higher risk.

Premium adjustments can affect the ability of premiums to act as effective risk signals for consumers. This is particularly so where premium adjustments are large and result in the retail premium diverging significantly from the technical premium.

Renewing customers are paying more than new customers

Insurers are also making premium adjustments to optimise price. These are adjustments made with reference to particular characteristics of a customer such as their propensity to shop around. Insurers may also offer explicit discounts for new customers. The effect of these approaches is particularly clear in the gap between premiums paid by new customers compared with renewing customers.
Even after accounting for variations in sums insured, renewing customers paid an average of 7 to 24% more than new customers in northern Australia in 2018–19. The difference was $255 in north Western Australia, $369 in north Queensland and $458 in the Northern Territory. These are significant amounts of money. We have made a range of recommendations to making it easier for consumers to search for, and compare, insurance products.

**Higher and more volatile claims costs have led to poor profitability in northern Australia**

**Larger and more frequent claims are leading to rising costs for insurers**

Insurers’ costs in northern Australia have risen over the last decade at a greater rate than costs in the rest of Australia. Building costs are generally higher in northern Australia for a variety of reasons, including the higher building standards that can apply, the availability of materials and labour (particularly after a natural disaster), as well as transport and machinery costs. This directly impacts the costs insurers face in settling claims.

In northern Australia, claims are more frequent, and on average larger, particularly for strata insurance. Claim levels are also highly volatile due to the significant impact of natural disasters. This has impacted on the cost of reinsurance, which is a significant cost component for insurers.

Gross claims expense for all home and contents products in northern Australia over the 12 years from 2007–08 to 2018–19 amounted to $5 billion, 12% of the national total, despite only 5% of policies being in northern Australia. For strata products, gross claims expense over this period amounted to $272 million, 10% of the national total (for 3% of policies), although this varied considerably from year to year.

The largest claims expense category in northern Australia from 2008–09 to 2017–18 was cyclone, followed by storm (including hail). Water damage, flood, and fire were the other main causes for claims. Water ingress from storm and cyclone events is a significant driver of cost for strata properties, particularly large strata properties. While water damage claims are smaller than storm claims, the frequency in which they occur is a significant driver of cost.

**Northern Australia has been an unprofitable market for insurers**

Insurers incurred heavy losses in northern Australia in the six years up to 2012–13, due to the impact of a number of damaging weather events. Over the 12-year period to 2018–19, insurers in northern Australia have experienced an estimated aggregate gross loss across home, contents and strata insurance products of approximately $856 million in real terms.

While the region remains unprofitable for the industry in aggregate, insurers’ financial performance in northern Australia was significantly better in the six years since 2013–14 following significant premium increases and advancements in pricing methodologies, including a shift to more granular address based pricing.

Heavy losses in 2018–19, largely because of the floods in Townsville and other parts of north Queensland in February 2019, dented an otherwise improving trend. Insurers in northern Australia had a poor year in 2018–19, with a combined industry loss of approximately $208 million.

More limited competition in strata markets has not led to higher profits for insurers and insurer intermediaries supplying strata insurance. Instead, insurers and insurer intermediaries appear to be reducing their exposure and increasing premiums for properties of certain sizes to address poor profitability results.
Unusual market dynamics are leading to soft competition

**Insurance markets are concentrated in many areas**

The level of concentration in northern Australian insurance markets continues to raise concerns for the effectiveness of competition. Home and contents insurance markets, and strata insurance markets, continue to be dominated by a small number of insurers.

The eight insurers that supply the vast majority of home, contents and strata insurance in northern Australia do so via approximately 30 different brands and 119 intermediaries, creating the illusion of more competition than actually exists.

Strata markets are particularly concentrated in each region of northern Australia, and nationally. Competition for strata properties with 11 or more units and with sums insured over $5 million is soft, especially for properties with a higher exposure to cyclone and water damage risk. There are fewer available insurers and insurer intermediaries for these properties, and those remaining appear to be reducing their exposure to these risks by increasing underwriting restrictions on the type and location of strata property they are willing to insure.

**It appears insurers are not actively trying to win market share in higher risk areas in northern Australia**

We have observed an unusual competitive dynamic, with insurers in northern Australia not necessarily motivated to compete on price for market share. Instead, insurers employ measures to manage their exposure in regions that are risky or volatile. They do this, for example, by increasing their premiums so as to lose customers in certain regions, or by no longer selling or renewing policies in certain areas once they reach a certain exposure.

While most consumers are able to choose from multiple suppliers, there are fewer insurers writing new business in some postcodes. There is no evidence that insurers are imposing large scale embargoes (that is, not writing any new policies), but some insurers will not cover some individual higher risk properties, or only offer to do so at very high premiums.

**Higher natural peril risks increase barriers to potential new entrants to northern Australia**

One of the main challenges for potential new entrants to northern Australia is the volatility and high risk profile of the region. These result in barriers including an increased capital requirement and/or dependence on reinsurance to meet higher and more volatile claims costs, the need to obtain and augment the risk data necessary to price with confidence, the costs of establishing or expanding builder and repairer networks, and obtaining sufficient scale.

It can be challenging for insurers not currently active in northern Australia to model catastrophe risk and predict what the future claims experience will be, particularly over the short-term. As insurers have moved to more granular (address level) pricing, the complexity of this challenge has increased significantly.

The characteristics of northern Australia are likely to make addressing these barriers more costly than for entry into insurance markets in the rest of Australia more generally.

Poor and volatile profitability of these insurance markets, coupled with the low populations (and potential premium pools) in many parts of northern Australia, also limits the attractiveness of these markets to potential entrants.
High premiums are leading to a rise in the number of uninsured homes but there is little help available for customers experiencing payment difficulties

Rates of non-insurance are significant and growing in some parts of northern Australia

Combining policy information collected from insurers with Census data, we estimated the rate of home building non-insurance in northern Australia to be around 20% (or around 86,000 properties) in 2016, compared with 11% for the rest of Australia.

The rate of non-insurance was highest in north Western Australia at 40% (around 10,700 properties), followed by the Northern Territory at 26% (around 13,200 properties) and north Queensland at 17% (around 62,100 properties). The level of non-insurance varied significantly between postcodes across the region, with average figures masking pockets of deeper non-insurance.

Compared with 2011, the estimated rate of home building non-insurance had increased by seven percentage points in north Queensland and nine percentage points in north Western Australia. We did not have sufficient data for the Northern Territory for 2011. Given these trends, it is likely rates of non-insurance have continued to rise across northern Australia in more recent years.

We commissioned research to understand the reasons why some households in northern Australia are not insuring. Over 95% of respondents without home insurance attributed this to cost (52% said they couldn’t afford it and 45% said they couldn’t justify the cost). Cost was also the main reason for not getting contents insurance. The surveys found a lower incidence of home and contents insurance among Indigenous residents of northern Australia.

Strata insurance is a legislated requirement, leaving little choice but for unit owners to accept the best of any offers of cover they or their representatives can find.

Paying by the month can add hundreds of dollars a year to the average premium

Just over half of northern Australian consumers are choosing to pay their annual home and/or contents insurance premium in monthly instalments. But some insurers apply a fee or surcharge for instalment payments of up to 20%, which can add up to hundreds of dollars a year to the cost of insurance.

In 2018–19, insurers in northern Australia collected around $20 million from monthly payment surcharges on home and contents insurance. Insurers say their instalment surcharges are not so much about administration fees, but rather reflect their experiences that customers who pay monthly have a higher overall claims cost compared to customers who pay annually.

We recommend clear disclosure of the premium difference (if any) between paying annually and paying by instalments, in dollar terms. Consumers should be able to clearly identify how much extra it will cost to pay by instalments.

Limited support for consumers facing payment difficulties

There is little help for consumers struggling to pay their premiums. Hardship policies offered by insurers typically only provide assistance to consumers who need to pay an excess to make a claim, rather than assisting consumers to keep up with premium payments.

The need for robust payment support for insurance has been borne out in this year’s COVID-19 environment, with sudden and widespread financial hardship throughout the Australian community. While voluntary hardship measures offered by insurers are welcome, the lack of consistency and transparency of such measures makes it confusing for customers to understand what help is available to them.
We recommend that insurers should be required to provide more support to consumers experiencing short term payment difficulties. This may be the difference between a consumer keeping their insurance during a difficult time or becoming uninsured.

While shopping around can help consumers find lower premiums, understanding and comparing policies is harder than it should be.

Despite incentives for consumers to shop around, retention rates remain very high.

Greater pricing sophistication, and pricing to reduce concentration risk, have increased the spread of premiums paid by customers in many areas of northern Australia. Even for a single property, there can be significant differences in the quotes provided by different insurers. An exercise we undertook to compare quotes from different insurers for the same house in Townsville returned quotes ranging from $2,150 to $4,871.

Along with insurers having different assessments of natural disaster risks facing a property, other components of the retail premium, such as estimated working claims costs, reinsurance costs, commission costs and margins, will also differ. The inclusions and exclusions of different insurance products will also contribute to quoted premium differences.

Despite incentives for consumers to shop around, the retention rate for combined home and contents insurance was as high as 94% in north Queensland, followed by 87% in the Northern Territory and 83% in north Western Australia in 2018–19.

It is time consuming to understand and compare insurance products but consumers are not always given the information they need to make good choices.

Consumers face high costs in searching for potential alternative products, including the length of time it takes to complete online quotes, compare product features and make relevant inquiries. It could take a consumer over five hours to provide all the information required to obtain three online quotes and to read the full product disclosure statements for three combined home and contents insurance products.

Even if a consumer is willing to invest the time to search for alternate insurance options, the complexity and opacity of insurance markets makes it harder than it should be for consumers to understand their choices and find a suitable product. Consumers in northern Australia told us that insurance products are complex and confusing, that they lack comparability, and that pricing is not transparent.

A number of commercial comparison websites operate to reduce search costs for insurance products, but these websites only provide quotes for participating insurers, not all insurers, and the quotes provided are indicative only. In 2018, only two of the eight insurers who hold the largest market shares in northern Australia had arrangements with commercial comparison websites. We recommend the government considers an independent national home insurance comparison website, which would require all insurers to participate.

We make a number of important recommendations aimed at providing consumers with the clear and simple information they need to make more confident decisions, including introducing standard definitions for prescribed events and requiring insurers to provide a product consistent with a revised standard cover product.
Brokers can help consumers buy insurance, but their remuneration structures inevitably give rise to conflicts of interest

The use of intermediaries, such as brokers, for home and contents insurance within northern Australia, and in particular northern Queensland, is more common than in the rest of Australia.

Insurance brokers can serve an important role for consumers in assessing risk, sourcing quotes, and in claims management. However there is a significant conflict of interest between an insurance broker’s obligations to act on behalf of a consumer while being remunerated by an insurer. Disclosure of the conflict does not overcome the conflict.

Commissions paid to intermediaries in northern Australia can have a significant effect on the final premium that consumers are charged. Base commission rates of 15 to 20% are common, and total incentive payments can reach in excess of 30% of the cost of the premium. GST and stamp duty are then applied on the commission-inclusive amount. We recommend prohibiting conflicted remuneration for brokers.

Reforms to land use planning and building standards can help reduce risks and costs in the longer term

Investing in pre-disaster mitigation is an effective option in some circumstances

Investment in pre-disaster mitigation is often heralded as a means to achieve sustainable and significant reductions in insurance premiums by reducing the underlying risk. However, this is not always the case.

Where mitigation is an appropriate option for a particular region, it should be explored. We recommend that the insurance industry works with governments to identify specific public mitigation works that could be undertaken and that insurers provide estimates of the premium reductions they anticipate if the works were to proceed, and report on actual premium reductions after any works are carried out.

Private (household level) mitigation is important too, but we are not yet seeing evidence of systemic reductions in premiums for customers who make this investment. Many insurers still don’t have systems in place to identify and support consumers’ efforts to reduce risk, which is at odds with insurers’ advancements in granular pricing more generally.

Building homes to more resilient standards, and making it easier for insurers to recognise resilient homes, could help reduce future premiums

How well a home is designed and built, and from what materials, can have a significant influence on its resilience to natural disasters. However, the current regulatory settings are not driving the development of more resilient buildings in higher risk areas.

We recommend the remit of the Australian Building Codes Board be expanded, to enable it to directly consider property protection and resilience measures when developing building standards. We also recommend that the insurance industry works with Standards Australia to develop voluntary standards for even more resilient homes and for mitigation works on existing properties.

Insurers generally use the year of construction as a proxy for building standards, and they generally do not consider enhanced resilience measures an owner might have taken, except in limited circumstances. Insurers say that obtaining reliable building specification data is problematic and seeking to do so would complicate or lengthen the quoting processes. We recommend a building resilience register comprising key building characteristics is a measure that should be considered further by governments.
Better consideration of insurance in land use planning could help avoid affordability problems getting significantly worse

Insurers have claimed that inappropriate land use planning has contributed to high insurance premiums in parts of northern Australia. While planners may consider the risk to people and damage to properties in their assessments, state and territory governments in northern Australia do not explicitly consider insurance implications.

State and territory governments should consider how their respective planning frameworks could allow planners to explicitly take into account insurance affordability and availability under existing planning objectives, and provide guidance to planners on how to do so.

When considering natural hazard risks, insurers and planners use different information sources, consider different parameters, and use different timescales. There is scope for better communication between planners and insurers on their respective approaches to risk, and to explore opportunities for collaboration between state and territory governments and insurers on data gathering and sharing. This could, for example, include the potential for co-funding arrangements between governments and the insurance industry to develop data that can meet both planning and insurance requirements.

We have made broad-ranging recommendations to improve competition and consumer outcomes in northern Australian insurance markets

We have made 38 recommendations for reform across six categories. These recommendations to governments and industry will help to improve competition and consumer outcomes in northern Australian insurance markets through a variety of means.

Making it easier to search for, and compare, insurance products

There are a range of reforms that will make it easier for consumers to search for, and compare, insurance products. We recommend changes to improve the comparability of insurance products, require insurers to share certain information with consumers and make it easier for consumers to access existing information sources.

Choosing the right amount of cover

Consumers generally bear the risk of underinsurance, as they are required to nominate the sum insured for their property. Insurers can provide clearer advice to their customers to help them choose the level of cover that they need.

Dealing with conflicts of interest

Conflicts of interest are common and significant for both insurance brokers and strata managers. We have made three recommendations to address these conflicts.

Improving consumers’ rights

We have made a number of recommendations to empower and better protect consumers in their dealings with insurers, particularly when they are experiencing financial difficulty or need to make a claim on their insurance.
Reducing risk and building better

Improving the resilience of properties and communities to natural hazards will have significant benefits now and into the future, including through lower insurance claims costs. Greater consideration of the likely benefits (and costs) of mitigation and other resilience measures is required.

Addressing immediate affordability concerns

Reforms to remove or re-base state and territory stamp duties on home, contents and strata insurance products have the potential to immediately relieve pricing pressure for all consumers in northern Australia.

There are calls for government intervention through a range of measures to address acute affordability and availability issues in the supply of insurance in northern Australia.

We considered the relative merits of a range of measures that could be taken alongside our other recommendations to challenge the more acute affordability issues that some consumers are facing. Specifically, we considered government reinsurance pools, government insurers, direct subsidies, mitigation programs, and licensing or authorisation conditions.

Direct subsidies would have the greatest potential to work in a targeted way to relieve some of the acute insurance affordability and cost of living pressures for households drawn to live and work in these regions. Subsidies can allow governments some flexibility in how to target and value them. There are some risks, however, such as distorting price signals to consumers and the subsidy being absorbed over time by insurers where price competition is not strong. However careful design can help manage these risks.

We do not consider government reinsurance pools or government insurers are well-suited to address affordability concerns in a targeted way. Government reinsurance pools have generally been introduced overseas in situations where insurance or reinsurance was not available through the private markets, which is not the case in northern Australia. Private insurance markets continue to supply insurance, including for cyclone and flood risks, throughout northern Australia. Government insurers also cannot be justified on the basis of availability concerns. The potential for government insurers and reinsurance pools to lower premiums without the government subsidising the insurer in some way is uncertain, and any premium reductions may not be significant. These measures cannot be targeted to consumers most in need, and would transfer significant risks from insurers and reinsurers to governments.

While subsidies would also require a call on public funds and may limit incentives to reduce risk, addressing acute affordability issues may lower future costs to governments of providing post-disaster relief to uninsured households and could help support governments’ objectives of developing northern Australia.
Our recommendations seek to improve competition and consumer outcomes in the markets for residential home, contents and strata insurance in northern Australia through a variety of means. Broadly, the recommendations\(^1\) can be categorised as:

- making it easier to search for, and compare, insurance products
- choosing the right amount of cover
- dealing with conflicts of interest
- addressing immediate affordability concerns
- improving consumers’ rights
- reducing risk and building better.

The recommendations are presented below in these categories.

To help governments and the insurance sector identify those recommendations that have the greatest potential to improve competition and/or consumer outcomes in insurance markets in northern Australia and more broadly, we have identified these as ‘key recommendations’.

**Making it easier to search for, and compare, insurance products**

There are a range of reforms that will make it easier for consumers to search for, and compare, insurance products. We recommend changes to improve the comparability of insurance products, require insurers to share certain information with consumers and make it easier for consumers to access existing information sources:

**Key recommendations**

▶️ **Recommendation 15.1**

**Better disclosure of instalment surcharge costs**

*Insurers should be required to provide the premium difference (if any) over the life of a policy between paying annually and paying by instalments, in dollar terms, at the time they provide an insurance quote, including on renewal notices.*

The lack of transparency by some insurers about the extra cost of paying by instalments makes it difficult for customers to understand their premiums and identify ways to save money.

\(^{(This\ is\ a\ new\ recommendation)}\)

---

\(^1\) Please note that recommendations that were included in our first and second interim reports have been renumbered. In some cases, these recommendations have been edited to remove references to the specific legal instrument that should be amended, and to address minor grammatical issues. These amendments do not alter the intent of the recommendations.
Recommendation 17.2

Review and mandate standard cover

The Treasury’s review of the standard cover regime should develop a proposal to mandate that insurers offering home and/or contents insurance product(s) should also offer a home and/or contents insurance product that does not deviate (through inclusions or exclusions) from the revised standard cover terms in the Insurance Contracts Regulations.

By ensuring there is one common product from each insurer (but not necessarily each brand), consumers could easily benchmark insurers against each other. This should not limit an insurer from offering other products that provide cover that differs from the standard cover product but insurers should be required to clearly indicate how these products differ from their standard cover product.

(This was previously Recommendation 5)

Recommendation 18.6

Disclose premium impacts of optional inclusions and exclusions

Insurers should be required to disclose the premium cost or saving for each optional inclusion or exclusion they offer to a consumer. Insurers should also indicate the premium cost or saving associated with incremental changes in excess levels and sums insured. This information should be provided to a consumer when an insurer provides a quote for a new policy and on a renewal notice.

Providing consumers with information about the cost impact of optional inclusions and exclusions (e.g. flood cover, accidental breakage cover) as well as variable costs (such as changing an excess or sums insured) will allow consumers to make more informed decisions about their choice of cover.

(This was previously Recommendation 18)

Recommendation 18.7

National home insurance comparison website

The Australian Government should consider developing a national home insurance comparison website. It should require the participation of all insurers active in relevant markets, allow consumers to compare policies by features, and make it quick and easy for consumers to act on the results.

An independent insurance comparison website may facilitate more informed consumer choice by assisting consumers to quickly and easily find insurers in their area and offering policies that meet their needs. Comparison websites can provide an opportunity for new entrants to increase consumer awareness of their brand at relatively low cost, reducing a barrier to entry. Enhanced comparability of products, such as through standardised definitions (recommendation 17.1) and mandated standard cover (recommendation 17.2), will assist in the effectiveness of such a website.

(This was previously Recommendation 19)
Related recommendations

Recommendation 7.1

Insurers to report their brands and where they are writing new business

Insurers should be required to report regularly to ASIC on the brands that they underwrite, and the postcodes in which new business has been written for home, contents and strata insurance products.

This will provide greater transparency on which insurers underwrite which brands and assist consumers searching for alternative suppliers in their area. This would build on the Productivity Commission’s recommendation in the recent inquiry into competition in the Australian financial system that insurers should provide an up-to-date list of the brands they underwrite to ASIC and that ASIC should transparently publish this information as a list on its website. (PC recommendation 14.2)

(This was previously Recommendation 3)

Recommendation 17.1

Standardise definitions of prescribed events

The Treasury’s review of the standard cover regime should develop a proposal to standardise the definitions of prescribed events (including ‘action of the sea’, ‘impacts’ and ‘storm’) to enable greater certainty for consumers and comparability of products.

New standard definitions should be drafted in a way that removes potential gaps in coverage between prescribed events, avoids the introduction of ambiguous concepts, and does not unnecessarily limit insurers’ scope for future beneficial product innovation.

(This was previously Recommendation 4)

Recommendation 18.1

Prominently publish Product Disclosure Statements and Key Facts Sheets online with product offerings

Insurers should be required to publish key facts sheets and product disclosure statements online in a prominent manner and alongside the relevant products.

These documents should be accessible prior to the commencement of the online quoting process, and accessible throughout the entire quoting process. This will facilitate more timely and convenient access for consumers to important information about products they are interested in buying.

(This was previously Recommendation 17)

Recommendation 18.2

A link to MoneySmart should be on new quotes and renewal notices

Insurers should be required to clearly inform consumers about the Australian Government’s MoneySmart website (www.moneysmart.gov.au). A link to MoneySmart using uniform wording should be provided on new quotes and renewal notices.

MoneySmart includes information to help consumers understand insurance. This is an important opportunity to raise awareness of the usefulness of this website.

(This was previously Recommendation 7)
Recommendation 18.8

Renewal notices should give 28 days’ notice

Insurers should be required to provide renewal notices for home, contents and strata insurance no less than 28 days before the expiration of their insurance cover, with a reminder to be sent no less than 7 days before expiration if it has not been renewed.

The Insurance Contracts Act currently requires no less than 14 days’ notice. The current minimum timeframe does not provide consumers with sufficient time to consider their renewal quote and explore their insurance options. It also may not be sufficient time for some consumers to have ready-access to funds, including to avoid instalment surcharges.

(This was previously Recommendation 20)

Recommendation 18.9

Disclose the premium, sum insured and excess on a renewal notice

Insurers should be required to clearly disclose, on renewal notices for home, contents and strata insurance, the sum insured and any excess of the expiring policy along with its premium. Insurers should also provide this information upon request.

This will allow consumers to easily identify how the insurer proposes to vary these terms from the previous year and seek explanation of any changes.

(This was previously Recommendation 10)

Recommendation 18.10

Disclosure where premium increases are capped

Insurers that have capped premium increases for particular risks (to slow the rate of adjustment to a higher technical price or other pricing objective), should be required to disclose this to an affected policy holder and provide an estimate of the timing and extent of premium increases that the insurer intends to apply in future.

This will allow consumers to recognise price as a signal of risk and prepare for potential future premium rises, including through more fully informed mitigation investment decisions.

(This was previously Recommendation 21)

Choosing the right amount of cover

Consumers generally bear the risk of underinsurance as they are required to nominate the sum insured for their property. Insurers can provide clearer advice to their customers to help them choose the level of cover that they need.
Key recommendation

**Recommendation 18.4**

**Insurers should estimate a sum insured for customers**

Insurers should be required to estimate an updated sum insured for their home insurance customers and advise them of this estimate on their renewal notice.

This estimate should note when the information used by the insurer to form the estimate was last updated by the consumer, and direct the consumer to contact the insurer if renovations/alterations to their home had occurred since then. Where the sum insured estimate is materially higher than provided for under the policy, the renewal notice should also include a warning to the customer about the dangers of their property being underinsured.

Advice given by an insurer fulfilling this obligation should be excluded from being considered personal financial advice.

(This was previously Recommendation 16)

Related recommendations

**Recommendation 18.3**

**Better understand information that falls within ‘general financial advice’**

The Insurance Council of Australia should engage with ASIC to gain a clearer understanding about the nature and type of information insurers can give to consumers within the meaning of providing general financial advice.

This would ensure that insurers are not refraining from providing general information, for example about rebuilding costs and building valuations, which would assist a consumer make an informed decision about their own situation.

(This was previously Recommendation 8)

**Recommendation 18.5**

**Disclose costs that count towards ‘sum insured’**

Insurers should be required to clearly disclose the types of costs that will count towards the sum insured amount for buildings (such as the costs of demolition, debris removal or for professional fees) where these are not provided for through a separate allowance under the policy. This information should be provided on any sum insured calculators used by the insurer and alongside the sum insured figure.

This will help consumers understand why and how calculator estimations can differ and empower them to make more informed decisions about their nominated sum insured. It should be provided alongside the sum insured amount for a property, including in quotes for new policies, renewals and on certificates of insurance.

(This was previously Recommendation 9)
Dealing with conflicts of interest

We found conflicts of interest are common and significant for both insurance brokers and strata managers. We have made three recommendations to address these conflicts.

Key recommendations

- **Recommendation 19.1**
  **Extend the ban on conflicted remuneration to insurance brokers**
  
  The Corporations Regulations should be amended to remove the exemption for general insurance retail products from the conflicted remuneration provisions as they apply to insurance brokers.
  
  Commissions and other benefits given to insurance brokers can give rise to an unacceptable conflict of interest. As is already the case for other financial products, insurance brokers should be prohibited from receiving commissions and other benefits where these create a conflict with a broker’s obligation to act in the best interest of their clients. Disclosure alone is insufficient to address these conflicts.

  (This was previously Recommendation 11)

- **Recommendation 19.2**
  **Strata managers to be remunerated by body corporate only**
  
  State and territory legislation governing strata managers should be amended to prohibit strata managers from accepting payments in relation to arranging strata insurance other than those agreed to, and made by, their body corporate.
  
  Strata managers should be required to negotiate any fees or payments for arranging insurance directly with the body corporate they are servicing. This would encourage remuneration arrangements that better align the interests of the strata manager and their clients.

  (This was previously Recommendation 24)
Related recommendation

Recommendation 19.3
Clear disclosure of products considered and remuneration

Comparison websites and insurance brokers should be required to disclose a complete list of what home, contents, or strata insurance products they will consider in making a comparison or providing a recommendation to a consumer. This disclosure should be prominently displayed on the comparison website or insurance broker’s website, and be provided to consumers before they engage the services of the comparison website or broker.

If recommendation 7.1 (inspectors to report their brands and where they are writing new business) is adopted, this disclosure should also refer consumers to this information. Finally, comparison websites should also be required to include, as part of this disclosure, the amount of commission and other remuneration that they receive for each product.

Comparison websites and insurance brokers only consider a sub-set of the market when providing a quotation or recommendations. Consumers should clearly understand the breadth of search a comparison website or insurance broker they are looking to use will undertake. This requirement should not preclude an insurance broker from considering a new product during the course of providing advice to a client, where this new product would not ordinarily be considered by the insurance broker (and therefore would not have been disclosed).

(This was previously Recommendation 25)

Addressing immediate affordability concerns

Reforms to remove or re-base state and territory stamp duties on home, contents and strata insurance products have the potential to immediately relieve pricing pressure for all consumers in northern Australia. If governments decide to intervene further to address acute affordability concerns, targeted consumer subsidies should be considered over other measures that have been suggested.

Key recommendations

Recommendation 3.1
Abolish stamp duty on home, contents and strata insurance products

The governments of Western Australia, the Northern Territory and Queensland should abolish stamp duties on home, contents and strata insurance products. State and territory revenue needs could be more equitably met through other means.

It has been widely acknowledged that stamp duties on insurance products are an inefficient form of taxation. This recommendation is in line with recommendations from previous inquiries into insurance and taxation issues.

(This was previously Recommendation 1)
Recommendation 3.2

Re-base stamp duty; use stamp duty revenue for affordability and mitigation

If stamp duties on insurance are maintained, the governments of Western Australia, the Northern Territory and Queensland should reduce the tax burden on consumers in higher risk areas by levying stamp duties for home, contents and strata insurance with reference to the sum insured value, rather than the premium level.

A portion of revenue from stamp duties on insurance products (however they are levied) should be directed towards measures to improve affordability for low income consumers or to fund mitigation works.

Re-basing stamp duty to be levied on sums insured will make it fairer to consumers living in higher risk areas.

Governments have previously received and continue to enjoy a windfall gain from the growth of insurance premiums in northern Australia. Directing revenue from stamp duties to public mitigation works should only be considered where insurers have provided estimates of premium reductions that would result from such works, and commit to reporting against these where work is undertaken (see recommendation 21.3).

Recommendation 8.1

If governments want to provide immediate relief to consumers facing acute affordability pressures, they should consider direct subsidies over other measures

There are calls for government intervention through a range of measures to address acute affordability and availability issues in the supply of insurance in northern Australia. We investigated the relative merits of measures including government reinsurance pools, government insurers, direct subsidies, mitigation programs and licence conditions.

If governments want to intervene, they should consider doing so through direct subsidies based on both premium level and income eligibility requirements, rather than government reinsurance pools or other measures.

Direct subsidies have the greatest potential to work in a targeted way to relieve some of the acute affordability and cost of living pressures facing consumers in higher risk areas, at a lower cost and more effectively than other measures.

There are some risks with subsidies, such as distorting price signals to consumers and the subsidy being absorbed over time by insurers where price competition is not strong. Careful subsidy design can help manage these risks.

Government reinsurance pools in other jurisdictions have generally been introduced in situations where insurance or reinsurance was not available through private markets. This is not currently the case in northern Australia. Private insurance markets continue to supply insurance, including for cyclone and flood risks. As such, government insurers and reinsurance pools cannot be justified on the basis of availability concerns.

The potential for government insurers and reinsurance pools to lower premiums without the government subsidising the insurer in some way is uncertain and may not be significant. These measures cannot be targeted to consumers most in need, and would transfer significant risks from insurers and reinsurers to governments.
Improving consumers’ rights

We have made a number of recommendations to empower and better protect consumers in their dealings with insurers, particularly when they are experiencing financial difficulty or need to make a claim on their insurance.

Key recommendations

- **Recommendation 15.3**
  
  **Help for customers experiencing premium payment difficulties**

  Insurers should be required to provide short term support to their current and renewing customers experiencing payment difficulties at the time their home and/or contents premium falls due.

  The framework should include the following options:

  - a policy health check to allow the customer to consider if there are amendments they could reasonably make to their policy to reduce their premium
  - reduced or waived surcharges for paying monthly (and other instalments that are more frequent than annual)
  - premium waiver
  - premium payment deferrals for up to 4 months without consequences for coverage
  - part payment of a premium with the remainder of the premium deferred for up to 4 months
  - a payment plan to allow the customer to repay their arrears.

  All renewals and notices of cancellation for non-payment of instalments should mention the availability of payment assistance. Insurers should have easy to find information on their website about the premium payment help that is available and how to access it. Insurers should undertake training and education for staff to implement payment difficulty assistance measures with compassion and consistency.

  (This is a new recommendation)
Recommendation 20.2

Giving consumers more control over how home (building) claims are settled

Consumers should be provided with the right to choose whether their home building insurance claim is settled through a cash settlement or with a repair/rebuild managed by the insurer. The insurer must inform the consumer they have this choice at the time a consumer lodges a claim.

At the time of advising a consumer about this choice, the insurer should also provide the consumer with a one page document written in plain English setting out matters the consumer should consider to help them make an informed decision, including:

- if a cash settlement is accepted, the insurer would no longer be required to manage or guarantee the quality, cost or timeliness of any works the consumer decides to carry out
- the consumer should seek advice from their mortgage lender (if applicable) about any implications of accepting a cash settlement for their mortgage
- the insurer may be able to obtain lower repairing/rebuilding quotes than the consumer is able to achieve
- the consumer should obtain independent quotes for repairing/rebuilding their property before making their decision.

Limited exemptions when cash settlement is necessary include repairing a shared fence, or if a home is insured for significantly less than the cost to reinstate the property and the insured is unwilling to contribute to the cost of repair.

Where a consumer requests a cash settlement offer, the amount of the cash settlement offer should be based on a genuine quote the insurer has received to carry out the necessary repairs/rebuild. If no such quote has been received, the insurer should set out the basis for the cash settlement amount offered. Any ancillary expenses subject to the claim that are not within the scope of works for the quote (such as temporary accommodation costs) should be settled separately.

Upon receiving a cash settlement offer, the consumer should be provided with a reasonable time period to decide whether to accept the offer, seek an amended offer, or elect to have the insurer manage the rebuild/repair.

(This was previously Recommendation 26)

Related recommendations

Recommendation 15.2

Insurers should be required to offer Centrepay

Insurers should be required to offer Centrepay as a payment option for home and contents insurance products.

The General Insurance Code of Practice 2020 contains a new industry commitment to supporting customers experiencing vulnerability. The provision of Centrepay is consistent with this commitment. Centrepay will improve the accessibility of insurance to low-income customers and is therefore in the public interest.

(This is a new recommendation)
Recommendation 18.12

Requesting personal information held by insurers

Insurers should be required to provide clear notice to consumers that they can obtain a copy of the information that the insurer holds about them, and contact details for doing so. This notice should be provided on a certificate of insurance and any renewal notices.

This will empower consumers to check and confirm their risk assessment, pricing and claims assessment is based upon reliable and verifiable information.

(This was previously Recommendation 23)

Recommendation 20.1

Better information for consumers lodging a claim

The General Insurance Code of Practice should be amended to require that, at the time a consumer lodges a claim, an insurer or its agent must clearly inform the consumer of the insurer’s claim handling policy, and expressly refer to:

- how the insurer will assess the validity of the consumer’s claim
- the insurer’s preferred repairer policy and in what circumstances a consumer can use their preferred repairer
- how decisions are made on cash settlements
- who will be managing the claim (for example, the name and contact details of a contracted claims company if relevant)
- the fact that the loss adjuster is acting on behalf of the insurer and not the consumer
- the consumer’s right to make a complaint to the insurer and the Australian Financial Complaints Authority.

(This was previously Recommendation 12)

Recommendation 20.3

ASIC approval for the General Insurance Code of Practice

The Insurance Council of Australia (ICA) should work with ASIC to obtain its approval for the General Insurance Code of Practice.

The ICA indicated in its Code of Practice Final Review Report that in order to meet the requirements for ASIC approval it would make a number of changes to the Code. The ICA should work with ASIC to ensure that these changes are sufficient to meet at least the minimum standards in Regulatory Guide 183 to obtain ASIC approval.

(This was previously Recommendation 13)
Reducing risk and building better

Improving the resilience of properties and communities to natural hazards will have significant benefits now and into the future, including through lower insurance claims costs. Greater consideration of the likely benefits (and costs) of mitigation and other resilience measures is required.

Key recommendations

➤ Recommendation 13.1

Expand the remit of the Australian Building Codes Board to include property protection

The Australian Government, and state and territory governments, should expand the remit of the Australian Building Codes Board to explicitly include property protection as an objective to pursue through the National Construction Code and referenced Australian Standards.

(This is a new recommendation)

➤ Recommendation 13.2

Developing voluntary standards for more resilient buildings

The insurance industry should work with Standards Australia to develop voluntary standards for:

- the development of new homes for resilience to natural hazards
- retrofitting/mitigation measures to improve the resilience level of existing homes.

The insurance industry should commit to recognising resilience measures meeting the new voluntary standards when setting premiums.

(This is a new recommendation)

➤ Recommendation 14.2

Better communication between insurers and planners

State and territory governments and the insurance industry should work together to identify:

- differences in risk data required by planners and by insurers, for example the level of detail required by insurers for underwriting purposes
- the potential for co-funding arrangements between governments and the insurance industry to facilitate the provision of data that can meet both planning and insurance requirements
- how natural hazard risk is determined, including how decisions are made on what is an acceptable level of risk. This may give planners a better understanding of how insurers assess and determine natural hazard risk and may influence planning policy and decisions for a particular identified risk
- what data insurers could provide to state and territory governments that have practical use to planners to assess natural hazard risks
- what other insights and value the insurance industry can provide to state and territory governments that may inform the development of planning policy and decisions for natural hazard risks.

(This is a new recommendation)
Recommendation 21.3

Public mitigation works and expected premium reductions

The insurance industry should work with governments to identify specific public mitigation works (e.g. flood levees) that could be undertaken and insurers should provide estimates of the premium reductions they anticipate if the works proceed.

Actual premium reductions following such works should also be publicly reported by insurers, measured against their estimates.

(This was previously Recommendation 14)

Related recommendations

Recommendation 13.3

Increasing consumer awareness of the insurance implications of home design choices

The insurance industry should work with the building and construction sector to raise awareness of possible insurance implications of design choices for new construction and renovations.

This will help inform consumers of the potential longer term impacts of their design choices and how they can better protect their homes.

(This is a new recommendation)

Recommendation 13.4

Building resilience register

The Australian Government should, in consultation with state and territory governments and the insurance industry, consider developing a voluntary building resilience register that would record key building specification data (such as floor height or structural improvements for better resilience) of properties.

The register’s primary purpose would be to provide property owners with the ability to register their building information to provide insurers with a comprehensive central information source to recognise more resilient buildings and incorporate detailed property information into pricing systems.

The register could also help reduce knowledge gaps in community exposure information, to enable governments to make decisions around disaster resilience, and assist further research on building resilience.

(This is a new recommendation)
**Recommendation 14.1**

**Consideration of insurance affordability and availability under existing planning objectives**

State and territory governments should consider how the current planning frameworks could allow planners to explicitly take into account insurance affordability and availability under existing planning objectives, and provide guidance to planners on how to do so.

Insurance considerations are most likely to be relevant to planning objectives regarding natural hazard risks and also housing affordability. Guidance material on these objectives (and any other relevant objectives) should explore how insurance affordability and availability could be considered by planners.

(This is a new recommendation)

**Recommendation 16.1**

**Extend and expand the North Queensland Strata Title Inspection Program**

The North Queensland Strata Title Inspection Program is due to end on 30 June 2021. The program should continue in north Queensland beyond this date, and be expanded to other parts of northern Australia.

Extending and expanding the program will help more property owners to gain an understanding of the risks they face and their options to mitigate them.

(This is a new recommendation)

**Recommendation 18.11**

**Consider likely insurance costs before purchasing real estate**

State and territory governments should implement measures to prompt consumers to investigate insurance costs when they are considering purchasing real estate.

As a first step, this should include a statement in a statutory information disclosure for a real estate transaction advising any potential purchaser to obtain an insurance estimate as part of their due diligence.

If recommendation 17.2 (to review and mandate standard cover) is accepted, state and territory governments should mandate that a current home (building) insurance premium based on the standard cover product be listed in a statutory information disclosure for a real estate transaction. This requirement should not extend to properties with a very high estimated sale price. State and territory governments should also mandate that vendors, or agents acting on their behalf, are unable to receive payment for the inclusion of a quote in the disclosure documents.

This will provide prospective purchasers with a clearer expectation of the possible insurance costs associated with the property.

(This was previously Recommendation 22)
**Recommendation 21.1**

**Clearly stated mitigation discounts**

Insurers' quotes and renewal notices for a property should be required to expressly show what discounts have been applied (if any) to reflect mitigation measures undertaken on that property.

This is important to help ensure premium adjustments are comparable between insurers and transparent for consumers. It also provides clarity to consumers and assists with evaluating investments in mitigation works.

(This was previously Recommendation 27)

---

**Recommendation 21.2**

**Information on mitigation works that could reduce premiums**

Insurers' quotes and renewal notices for home insurance should be required to provide a schedule of mitigation measures which customers of the insurer have undertaken for properties with similar characteristics in order to improve their risk rating. This should include a guide to the premium reductions (in percentage terms) that consumers have received for undertaking these measures.

This would provide (new or renewing) consumers with current information on a practical range of actions that could be undertaken to mitigate risk and show them what the benefit could be in terms of premium reductions. This will assist consumers to decide if the risk mitigation option is worth the upfront cost.

(This was previously Recommendation 28)

---

**Recommendation 21.4**

**Building code changes to better protect interiors and contents**

The Australian Building Codes Board expressly consider measures that better protect the interiors and contents of residential buildings from damage caused by natural hazard risk (such as, wind-driven water ingress around doors and windows during and following storms).

When assessing the costs and benefits of potential code amendments, the Australian Building Codes Board should also consider the potential longer term impacts on insurance premiums.

(This was previously Recommendation 15)
1. Setting the scene

Northern Australia covers an area of approximately three million square kilometres and is home to around 5% of Australia’s population. A strong and prosperous north is crucial to Australia’s economic future. The Australian Government’s 2015 white paper on developing northern Australia, *Our north, our future*, sets out its commitments to supporting the north to achieve its potential.

Destructive extreme weather events are not a rare occurrence in northern Australia. The threat of seasonal storms, cyclonic activity and floods characterises daily living. In February 2019, Townsville and surrounding areas of north Queensland were affected by devastating floods that left hundreds of residents displaced and caused significant damage to people’s homes and businesses.

For small communities, towns and regional cities in northern Australia that are striving to grow and flourish, the affordability of insurance is increasingly recognised as a challenge to liveability and economic prosperity more broadly. The cost of insurance in the north is not just a problem for the north; rather for the whole Australian community that draws on the strength of the economies of the northern regions.

1.1 Our terms of reference

On 25 May 2017, the Treasurer directed the Australian Competition and Consumer Commission (ACCC) to hold an inquiry into the supply of residential building (home), contents and strata insurance products to consumers in northern Australia.¹

Matters to be considered by the inquiry shall include, but not be restricted to:

- pricing and availability of insurance to consumers in northern Australia
- key cost components of insurance pricing in northern Australia and how they have changed over time, particularly catastrophe risk
- terms and conditions on which insurance is supplied
- competitiveness of markets for insurance in northern Australia
- existence and extent of any barriers to entry, expansion and/or exit in the supply of insurance in northern Australia
- any impediments to consumer choice, including transaction costs, a lack of transparent information, or other factors
- identifying any regulatory issues, or market participant behaviour or practices that may not be supporting the development of competitive markets for insurance in northern Australia
- the profitability of insurers through time and the extent to which profits are, or are expected to be, commensurate with risk.

For the purposes of this inquiry, northern Australia broadly corresponds with the whole of the Northern Territory, those parts of Western Australia and Queensland that are north of the Tropic of Capricorn and some areas just south of the tropic, including Carnarvon and Gladstone.² A map is at figure 1.1.

---


² More formally, Northern Australia has the meaning given in section 5 of the *Northern Australia Infrastructure Facility Act 2016* (Cth).
While the terms of reference focus our inquiry on northern Australia, given the nature of the insurance industry, it is inevitable that many issues that we are considering exist throughout Australia more generally. This is especially the case with other parts of the country that are experiencing affordability and/or availability concerns due to the risk of significant weather events, natural disasters or geographic remoteness. Matters relating to how consumers identify, compare and choose insurance products, for example, are also broadly relevant to consumers throughout the country. It also follows that many of the measures we propose throughout our inquiry could apply nationally.

In this inquiry, we are considering the supply of home, contents and strata insurance products:

- **Home insurance** provides cover for the insured building(s) only. Also referred to as ‘building insurance’, this will often be purchased by landlords (often as part of a landlord insurance policy which can include features like rental protection), and by people who have chosen to buy home and contents insurance from different insurers or brands.

- **Contents insurance** provides cover for contents only, and will often be purchased by renters and by people who have chosen to buy home and contents insurance separately from different insurers or brands.

- **Combined home and contents insurance** provides cover for both the home building and its contents.

- **Strata insurance** is typically required by state and territory legislation to cover the estimated total cost of replacing the common property of a strata scheme.

We refer to home, contents and strata insurance specifically where relevant. References to ‘insurance’ should be taken as a reference to all three.

### 1.2 Our inquiry process

A number of previous inquiries, reviews and research have considered issues related to affordability and/or availability of insurance in northern Queensland specifically and northern Australia generally. For example, the Productivity Commission Inquiry into Natural Disaster Funding Arrangements, the Northern Australia Insurance Premium Taskforce, the Senate Inquiry into Australia’s general insurance industry, and the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. We acknowledge the important contribution offered by previous reports to exploring insurance concerns, identifying issues, and proposing policy responses, including the recent final report of the Royal Commission into National Natural Disaster Arrangements.
Our inquiry builds on previous studies, but is fundamentally different for two key reasons:

- First, we have used our powers under the *Competition and Consumer Act 2010* (Cth) to obtain a significant volume of detailed information from insurers that has not been provided to past reviews.

- Secondly, our inquiry is focusing closely on competition, regulation and consumer protection. We are applying our expertise in these fields to examine the structure of the industry and how insurance markets are operating.

Over the past three years, we have examined the markets for residential home, contents and strata insurance in northern Australia with a focus on consumer and competition issues. We have received and analysed an extensive volume of documents and data from insurers, and we have consulted widely, including with industry, local residents, state and territory governments, local councils and communities across northern Australia.

To date, we have provided two interim reports to the Treasurer and have made a range of recommendations designed to improve how insurance markets work and achieve better outcomes for consumers.\(^4\)

The two interim reports reported on the prices, costs, profits and nature of competition in home, contents and strata insurance markets in northern Australia.

In 2019 we undertook a closer examination of five focus areas:

- the measures that could be used to address concerns about the affordability and availability of insurance in northern Australia
- case studies on selected areas of northern Australia and the insurance issues in these areas
- insurers’ use of premium adjustments and how much impact they have on total premiums
- the barriers to entry and expansion into the insurance market in northern Australia
- the extent of, and reasons for, non-insurance in northern Australia.

This final report builds on our analysis and findings made throughout the inquiry and also presents findings and recommendations on our four focus areas for this year:

- examining the impact of building specifications on premium pricing
- how future insurance affordability and availability is affected by land use planning
- supporting customers experiencing payment difficulties in the payment of a home or contents premium
- closer examination of the challenges facing strata insurance markets in northern Australia.

Our inquiry findings and recommendations will assist policy decision makers to enact policies that enhance the resilience of northern Australian population and bring about further improvements to insurance markets for consumers.

---

\(^4\) ACCC, *Northern Australia Insurance Inquiry: First Interim Report*, November 2018 (First interim report); ACCC, *Northern Australia Insurance Inquiry: Second Interim Report*, November 2019 (Second interim report). In addition to the interim reports, we have provided mid-year update reports to the Treasurer in each of 2018 and 2019 and published those on our website for interested stakeholders.
1.3 Information that has informed our inquiry

Public consultation

There is a broad range of stakeholders with a strong interest in our inquiry including local residents and property owners across northern Australia, the insurance industry, regulators, governments, local councils, regional development organisations, brokers, strata management groups and consumer advocacy groups. Our public consultation has allowed us to hear directly from these stakeholders.

In October 2017, we released an issues paper for consultation. We received over 280 submissions, a high proportion of which came from local residents and property owners across northern Australia. Over 150 people attended our public forums in Townsville, Cairns, Rockhampton, Mackay, Broome, Karratha, Darwin and Alice Springs between 15 November and 6 December 2017 and shared their views and experiences with us directly. The issues paper, submissions and a summary of each public forum are published on our website.5

In publishing our first interim report in December 2018, we invited stakeholders to comment on 13 draft recommendations that we made in that report. We received approximately 120 submissions, which helped us understand the level of support for the principles underlying our draft recommendations, and potential issues that we could seek to address through amendments. After considering stakeholder views, we finalised all 13 draft recommendations (six without amendment, seven with minor amendments), in our second update report.6

The second update report also called for submissions on measures that could be introduced to improve insurance affordability and availability in northern Australia. We received 23 submissions, which we have taken into account, primarily in chapter 8.

We did not undertake any public consultation in 2020, but rather, consulted with key stakeholders, as we have done throughout our inquiry. The stakeholders that we consulted with in 2020 are outlined in the ‘Acknowledgement’ section at the end of this chapter.

Commissioned research

In 2019, we commissioned research to better understand the extent of, and reasons for, non-insurance in northern Australia. Over 1,850 people in northern Australia, plus a further 500 from other parts of the country, participated voluntarily in our surveys, filling important gaps in information that we would not ordinarily be able to obtain through public consultation or from insurers. The methodology and findings are presented in chapter 12.

Information collected from insurers and insurer intermediaries

Throughout our inquiry, we have used our compulsory information gathering powers under section 95ZK of the *Competition and Consumer Act 2010* (Cth) to obtain a significant volume of detailed information from eight insurers7 and five insurer intermediaries8 in northern Australia. Insurers have also voluntarily provided further information in response to our requests. This has allowed us to gain unique insight into the home, contents and strata insurance markets by obtaining information that past reviews of insurance markets have not been able to access.

---

7 We have also received more limited information from a number of other insurers with a limited or no current presence in northern Australia.
8 Insurer intermediaries arrange contracts of insurance as an agent of an insurer. See chapter 2 for more detail.
The insurers are:
- AAI Limited (Suncorp)
- Allianz Australia Insurance Limited (Allianz)
- Commonwealth Insurance Limited (CommInsure)
- Insurance Australia Limited (IAG)
- QBE Insurance (Australia) Limited (QBE)
- RACQ Insurance Limited (RACQ)
- Westpac General Insurance Limited (Westpac)
- Youi Pty Ltd (Youi).

The insurer intermediaries are:
- Catlin Australia Pty Ltd (Brooklyn)
- CHU Underwriting Agencies Pty Ltd (CHU)
- Longitude Insurance Pty Ltd (Longitude)
- Strata Community Insurance Agencies Pty Ltd (SCIA)
- Strata Unit Underwriting Agency Pty Ltd (SUU).

When presenting our analysis throughout this report, there are some instances where we have not identified insurers by name, instead distinguishing each with a number. The allocation of an identifying number is random and not consistent between sections of analysis. That is, ‘Insurer 1’ will not be the same insurer across all charts where an Insurer 1 label is used.

We did not obtain information using our compulsory information gathering powers from every insurer that supplies home, contents and strata insurance in northern Australia. However, we are confident the eight insurers and five insurer intermediaries we did obtain information from underwrite nearly all home, contents and strata insurance policies in northern Australia.

Our analysis relies on the accuracy of information and data supplied by insurers and insurer intermediaries. Each insurer generally records their data differently, and in some cases we have needed to categorise and/or normalise the data to enable a whole-of-industry analysis; this was particularly the case with property risk ratings (see notes about our approach to risk ratings below). We also came across instances where not all insurers were able to supply the information we requested, particularly in relation to premium components (featured in chapter 4) and premium adjustments (chapter 10). Our analysis and findings should be interpreted in the context of these limitations.

We have not collected insurers’ data for the 2019–20 financial year to update our costs, prices and profits analysis in this report given the gravity of the COVID-19 pandemic and the disruption it causes to our domestic economy. Our decision was driven by our consideration of the resource constraints that insurers faced and the uncertainty and interruptions that they had to cope with in handling claims during the COVID-19 pandemic. With this data limitation, most analysis presented in this report only includes data up to the financial year 2018–19 or 2017–18.

Given the variability of insurance costs and profits from year to year, we generally measure insurance performance over a longer time period. We are confident that the data we have collected up to the 2018–19 financial year provides an accurate picture of insurance markets and the general trends in insurance prices.

---

9 The Territory Insurance Office (TIO) brand dominates in the Northern Territory. Allianz acquired the TIO’s business from the Northern Territory Government in 2015. We have been able to obtain only very limited data about the TIO’s business prior to this acquisition. As such, reported policy numbers, claims and premiums for the Northern Territory prior to 2015 are less certain.
1.4 Notes about our approach to policy-level and risk rating data

We obtained policy (household) level data from insurers and insurer intermediaries. This data included premiums, sums insured, excesses and risk ratings for various perils. We also received some aggregated risk rating data.

In several chapters, we have commented about insurers’ risk rating levels for various perils. For example, the proportion of policies falling into different risk rating levels and the average premiums across risk rating levels. The risk rating levels are not directly comparable between insurers and risk ratings used by insurers for different perils are also not always comparable. Insurers use different methodologies to calculate and rank peril risk and records it in a different way. We also acknowledge that the formats used by some insurers to provide us with risk rating levels were developed by insurers to respond to our information requests. Finally, in some cases we have grouped the risk rating levels provided by insurers into a smaller number of categories to simplify the analysis.

We have used box charts throughout this report. Box charts are used to show the distribution of values. The example below provides a guide on what these charts illustrate.

The box shows the middle 50% of values, split into two quartiles by the line which represents the median point. Half of the values are higher and half lower.

The line extending above the box shows the range from the 75th percentile (the top of the box) up to the 90th percentile (the top of the line). Ten per cent of values are above the top of this point (also called the ‘upper decile’).

Similarly, the line extending below the box shows the range from the 25th percentile (the bottom of the box) down to the 10th percentile (the bottom of the line). Ten per cent of values are below this point (also called the ‘lower decile’).
1.5 Approach to case studies

We undertook a number of case studies on sub-regions to demonstrate and explore the diversity of insurance experiences across northern Australia, for example in areas such as premium pricing, property risk ratings, claims expenses, levels of non-insurance and under insurance, and the degree of competition in the area.

We collected policy (household) level data from insurers to inform these case studies, going deeper than postcode level to provide a more complete assessment of factors impacting local insurance markets. Each case study is written up in chapter 9, however more detailed analysis of the issues presented by each are reflected in findings of other chapters.

The case study regions capture some of the geographic and socioeconomic diversity of northern Australia as well as market characteristics and/or observations that we wanted to explore.

The case study areas and their respective postcodes are:

- Townsville in north Queensland (4810, 4811, 4812, 4814, 4815, 4817)
- Mackay to Airlie Beach along the Coral Sea coast of north Queensland (4740, 4741, 4798, 4799, 4800, 4802, 4803)
- Cooktown on the Cape York Peninsula in far north Queensland (4895)
- Port Hedland in the Pilbara region of north Western Australia (6721, 6722)
- Kununurra in the Kimberley region of north Western Australia (6743)
- Katherine in north central Northern Territory on the banks of the Katherine River (0850)
- Alice Springs in Central Australia, the Northern Territory (0870)
- Roma in south western Queensland (not in northern Australia, but included to represent the impact of flood mitigation) (4455).

Throughout the report we have reported trends across these case study areas. In some places we have also made observations about a selection of postcode areas within these case study areas.

1.6 Special reports on Townsville

Following the February 2019 floods in the Townsville area, the government requested we assess the extent of non-insurance in the flood affected areas of the Townsville region, including households that have insurance but not flood cover. The government also requested we examine the extent of non-insurance for small businesses in the affected areas of Townsville and the reasons for this. Given small business insurance is not within the terms of reference for our inquiry, we did this in parallel to our inquiry. The letter we received setting out this direction is published on our website. As part of the commissioned research noted above, we included a spotlight survey of both residents and small businesses in the Townsville area. We report on those findings in chapter 9 and Appendix D respectively.

1.7 Structure of this report

There is a very large volume of diverse information to consider and report on. At times, there is some overlap between chapters. This has allowed us to consider complementary information in different contexts and we have cross-referenced to indicate this.

Our findings from the five focus areas we considered in 2019 are set out in chapters 8 to 12, and we report on our 2020 focus areas in chapters 13 to 16.
Chapter 2—Market structure: provides an overview of the structure of insurance markets in Australia and across northern Australia, including the types of insurance products available, the size of various insurance markets in northern Australia and how insurance is supplied to consumers.

Chapter 3—Insurance prices in northern Australia: sets out in detail the trends and levels of retail premiums since 2007–08 with a more detailed examination of premiums for the 2018–19 year. Premiums are broken down by product and region and compared across northern Australia and to the rest of Australia. It also provides more detailed analysis of policy level data from the selected case study areas, on a range of trends, such as variations in premiums, sums insured and excess levels.

Chapter 4—How insurers set premiums: discusses insurers’ approaches to setting premiums and looks at the different components of premiums. It particularly focuses on discussing insurers’ approaches to setting technical premiums and why they are higher in northern Australia by examining technical premium components. It also discusses the recent developments in insurers’ pricing approaches.

Chapter 5—The costs of providing insurance: sets out the main costs, including claims costs, of supplying insurance across Australia, and how these have changed within the period from 2007–08 to 2018–19. It considers the impact of natural catastrophes on claims and reinsurance expenses in northern Australia. It also provides our analysis on composition of claims costs and how this compares between regions.

Chapter 6—Profitability of insurers in northern Australia: sets out our approach to assessing insurers’ profitability, and the various ways that profitability can be considered. It discusses the estimated profits and losses from providing insurance in northern Australia, in comparison to the rest of Australia, in 2018–19, and over time.

Chapter 7—Competition in northern Australian insurance markets: examines the current state and effectiveness of competition in northern Australian insurance markets. It discusses how insurers compete, and considers a number of factors including developments in concentration levels, the availability of insurance and the impediments consumers may face in switching insurers.

Chapter 8—Measures to improve affordability and availability: provides our analysis and findings on measures which could be used to address concerns about the affordability and availability of insurance in northern Australia. It examines the measures that have been previously considered in Australia and implemented overseas, together with advantages and disadvantages of each.

Chapter 9—Detailed case studies on sub-regions in northern Australia: sets out the detailed case studies we conducted on selected areas of northern Australia, providing our key observations and discussions about a number of issues including premium pricing, property risk ratings, claims expenses and competition in these selected regions.

Chapter 10—The use of premium adjustments and their impact: discusses the scale of premium adjustments and the reasons why insurers make premium adjustments. It highlights differences in premiums between new and renewing customers.

Chapter 11—Barriers to expansion and re-entry: provides our analysis of barriers to entry and expansion into the insurance markets in northern Australia. It also discusses how the profitability of the northern Australian insurance markets may affect an insurer’s decision to enter the markets.

Chapter 12—Understanding non-insurance: explores the extent of, and reasons for, non-insurance in northern Australia. We complement our analysis of data collected from insurers and the ABS Census with consumer surveys to provide additional insight.

Chapter 13—The impact of building specifications on premium pricing: considers the impact that building specifications can have on insurance premiums, and the role of building characteristics in premium component pricing more generally. It discusses how changes to building standards can influence premium affordability in the immediate and longer term, and looks towards broader reforms that can further facilitate the development of more resilient buildings.

Chapter 14—Land use planning and future insurance affordability and availability: discusses the extent to which insurance affordability and availability is taken into account in the land use planning frameworks in northern Australia, and considers how insurance could be given more weight in land use planning.
planning. It also considers the merits of improving information sharing between insurers and planners, particularly in relation to understanding the differences in their risk assessment methodologies.

**Chapter 15—Supporting customers experiencing payment difficulties**: explores the reasons why insurers impose surcharges on monthly installment policies and whether consumers are adequately informed of the surcharges. It considers whether payment options such as Centrepay or fortnightly payments would improve the accessibility of insurance to low-income consumers. It also considers whether insurers should have obligations to support customers experiencing payment difficulties in relation to a premium payment, and what the support measures could include.

**Chapter 16—Challenges facing strata insurance markets in northern Australia**: undertakes a closer examination of strata insurance markets in northern Australia and discusses the challenges and market dynamics facing different types of strata properties.

**Chapter 17—Product characteristics, terms and conditions**: considers the statutory concepts of the ‘standard cover’ regime, and the adequacy of existing regulatory requirements to disclose such derogations. It also looks at non-price differences and the lack of consistency in how insurers define certain terms.

**Chapter 18—Consumer information and choices**: discusses the information consumers receive and seek about their insurance choices and the decisions they need to make, including with respect to policy type and sum insured. It also considers choices consumers can make to improve their access to affordable insurance.

**Chapter 19—Intermediaries and other third parties**: considers the role and impact of insurer intermediaries and insurance brokers, including the potential conflicts that can arise through commission-based remuneration from insurers. We also consider the role of strata managers and the current disclosure and remuneration arrangements.

**Chapter 20—Claims processes and dispute resolution**: examines insurers’ claims processes and the roles of loss adjusters and insurers’ arrangements with builders and repairers. It also considers how claims are settled and dispute resolution options available to consumers.

**Chapter 21—Mitigation**: explores both private (property-level) and public (community-level) mitigation, including the extent and transparency of premium reductions made by insurers in recognition of mitigation activity. It also considers at a high level the importance of land use planning policies and building regulations to minimise risks for future developments.

**Appendix A—Notice from the Treasurer**: sets out the terms of reference for this inquiry.

**Appendix B—Insurers’ brands and intermediaries**: lists the insurer brands and insurer intermediaries for the eight major insurers operating in northern Australia in 2018, in relation to home, contents and strata insurance products.

**Appendix C—Measures used in Australia and overseas**: provides an overview of the measures used to address a range of insurance affordability and availability concerns in Australia and in other jurisdictions, including the design features of the featured schemes. We draw on this information throughout chapter 8.

**Appendix D—Small business insurance in Townsville and the February 2019 floods**: presents findings about non-insurance for small businesses in flood-affected areas of Townsville following a request from the Australian Government that we consider this in parallel to our inquiry.
1.8 Acknowledgements

We would like to acknowledge and thank the people of northern Australia and other key industry and community stakeholders for sharing their views, experiences and expertise with us throughout our inquiry to date. We recognise that providing input into a process such as this takes time and resources. Your effort has made an important contribution to the findings and recommendations set out in this report. Over 2,350 residents around the country voluntarily participated in our consumer research to allow us better understand the extent of, and reasons for non-insurance and we recognise their contribution to the findings in our report.

We acknowledge the cooperation of insurers and insurer intermediaries active in northern Australia who have provided us with information in response to our information gathering notices and otherwise assisted with our inquiry.

We recognise the assistance of insurers not active in northern Australian markets, and reinsurers, who have provided information voluntarily to assist with aspects of our inquiry. These include AIG Australia Limited, Auto & General Insurance Company Limited, Chubb Insurance Australia Ltd, The Holland Insurance Company Pty Ltd, Liberty Mutual Insurance Company, Munchener Rückversicherungs-Gesellschaft (Munich Reinsurance Company), RAA Insurance Limited, RAC Insurance Proprietary Limited, RACT Insurance Pty Ltd, Swiss Reinsurance Company Ltd and Zurich Australian Insurance Limited.

We also acknowledge and thank Australian Reinsurance Pool Corporation, Flood Re, California Earthquake Authority, New Zealand Earthquake Commission, and New Zealand Treasury for their assistance with our inquiry.

In 2020, we have consulted extensively in relation to the four focus areas we examined this year. The stakeholders we consulted with include:

- Australian Securities and Investments Commission
- Australian Prudential Regulation Authority
- Insurance Council of Australia
- James Cook University Cyclone Testing Station
- Commonwealth Scientific and Industrial Research Organisation
- Australian Building Codes Board Office
- Standards Australia
- Housing Industry Association
- CoreLogic Asia Pacific
- Local Government Association of the Northern Territory
- Planning Institute of Australia
- Geoscience Australia
- Australian Local Government Association
- Mackay Regional Council
- Town of Port Hedland
- City of Karratha
- Cairns Regional Council
- Shire of Broome
- Floodplain Management Australia
- Queensland Treasury
- Queensland Reconstruction Authority
We would like to acknowledge and express our appreciation for the information stakeholders with whom we have consulted have voluntarily provided to assist with our inquiry.
2. Market structure

Key points

- Eight insurers currently underwrite the vast majority of home, contents and strata insurance in northern Australia. These insurers can either sell direct to consumers via a range of brands, via insurer intermediaries that sell insurance on behalf of the insurer or via insurance brokers who may help a consumer find a suitable product for their needs.

- Northern Australia forms a relatively small share of the national market for home, contents, and combined home and contents insurance products. In the 12 years to 2018–19, northern Australia represented about 5% of the policies supplied by these insurers nationally, but 9% of total gross written premium and 11% of total claims costs.

- Most insurers supply home, contents and strata insurance to consumers through multiple channels and under many different brand names (including those of insurer intermediaries). This allows insurers to take advantage of consumers’ awareness of well-known brands and leverage consumer trust in certain brands.

- Three insurers receive a significant proportion of their total gross written premium for home and contents insurance through insurer intermediaries. However, for most insurers, the majority of their gross written premium comes through direct sales to consumers.

- The insurance broker market is predominantly made up of hundreds of small, privately owned businesses. However, to help these businesses realise the benefits of size and scale, many join an insurance broker member group.

- Insurers’ compete for the services of insurance brokers via the commissions they offer for placing a policy with that insurer. The ability of brokers to extract concessions from insurers does not necessarily translate to lower premiums for consumers.

This chapter provides an overview of the structure of insurance markets in Australia. Understanding the structure of the insurance markets is important to understanding competition in those markets, how insurance is sold to consumers, as well as the types of issues that can arise for consumers when purchasing insurance.

2.1 Insurance markets in northern Australia

Residential building (home), contents and strata insurance products are a form of general insurance known as householders insurance. When an insurer enters an insurance contract with a consumer, they are said to underwrite the policy. That is, they accept liability and guarantee payment in case of loss or damage for certain events. For consumers, it can appear there are many different companies in Australia that provide householders insurance including providers of financial services, banks, motoring associations or large supermarket chains. However, the majority of insurance in Australia is underwritten by a smaller number of insurers that supply either directly to consumers via their own brands, or through intermediaries such as agents or distributors that act on behalf of the insurer.

11 General insurance includes liability insurance such as compulsory third party (CTP) motor insurance, worker’s compensation, professional indemnity insurance and public liability insurance, and property insurance such as home and contents insurance, travel insurance, and comprehensive motor vehicle insurance.

12 A general insurer is authorised to conduct new or renewal insurance business in Australia by virtue of determinations made by APRA under items 4 and 5 of Schedule 2 of the General Insurance Reform Act 2001.
There are eight insurers who underwrite the vast majority of home, contents and strata insurance in northern Australia.\(^{13}\) These are:

- AAI Limited (Suncorp)
- Allianz Australia Insurance Limited (Allianz)
- Commonwealth Insurance Limited (CommInsure)
- Insurance Australia Limited (IAG)
- QBE Insurance (Australia) Limited (QBE)
- RACQ Insurance Limited (RACQ)
- Westpac General Insurance Limited (Westpac)
- Youi Pty Ltd (Youi).

There are other insurers who supply a small number of policies in northern Australia, such as Sure Insurance, Defence Service Homes Insurance, Hollard, Chubb and AIG.

Many insurers in Australia are owned or controlled by non-operating holding companies (NOHC). NOHCs are companies, incorporated in Australia, that do not carry on a business other than the business of ownership or control of other bodies corporate.\(^{14}\) However, you do not need to be controlled by a NOHC to carry on the business of supplying insurance in Australia.

Consumers can either purchase insurance directly from an insurer, or via an intermediary. Intermediaries can be categorised as either:

- **insurer intermediaries** that arrange contracts of insurance as an agent of an insurer—they may be a ‘distributor’ of an insurer-branded product, an ‘authorised representative’ applying their own brand to a ‘white label’ insurance product underwritten by an insurer, or acting under a ‘binder agreement’ where they have been authorised by an insurer to enter into contracts and/or settle claims on an insurer’s behalf, or

- **consumer intermediaries** (most commonly insurance brokers) that arrange contracts of insurance as an agent of a consumer, owners corporation or the representatives of an owners corporation.

Intermediaries may charge a fee for their services and/or receive a commission from the insurer they place a policy with. A very small number of consumers obtain insurance through referrals from other businesses or comparison websites. The remuneration of intermediaries is discussed in more detail in chapter 19.

In order to protect themselves against large losses from catastrophic events, insurers may also purchase their own form of insurance known as reinsurance. There are a number of forms of reinsurance. The most common are excess of loss reinsurance, where a reinsurer insures losses from a single event over a specified threshold in return for a reinsurance premium. The second most common is quota share or proportional reinsurance where the reinsurer pays a proportion of all the insurer’s claims for a share of the insurer’s premium revenue.

---

\(^{13}\) These eight general insurers also accounted for approximately 86% of total gross written premium for home, contents and strata insurance nationally in 2018–19.

\(^{14}\) Insurance Act 1973 (Cth), section 18 and APRA, Guidelines on Authorisation of Non-Operating Holding Companies, December 2007.
The general insurance industry in Australia is supervised by the Australian Prudential Regulation Authority (APRA). To provide general insurance in Australia, an entity must be licensed by APRA. Insurers are governed by APRA’s prudential standards that require insurers to hold a certain amount of capital and to implement certain governance and risk management procedures. These standards are designed to protect consumers, by ensuring insurers remain solvent and are able to pay claims.

In certain circumstances, unlicensed foreign insurers are permitted to underwrite risks in Australia. Unauthorised Foreign Insurers (UFIs) are foreign incorporated or established insurers and are not authorised by APRA to carry on insurance business in Australia subject to limited exemptions from licensing requirements.

The current circumstances in which an UFI may write business in Australia include:

- insurance contracts acquired by ‘high value’ insureds (those with $200 million revenue or gross assets or with 500 staff)
- insurance for atypical risks (including risks arising from war, nuclear or biological hazards, space debris, and certain aircraft and marine vessels risk), or
- where a broker has certified that a risk cannot reasonably be placed with an Australian insurer, including on the basis that the price offered by Australian insurers is substantially less favourable.

While UFIs may legally operate in northern Australia through exemptions under which a broker can place business off-shore, these insurers do not have a significant level of participation in these markets.

---

15 Insurance Act 1973 (Cth), section 12.
16 Section 3A(1) of the Insurance Act 1973 (Cth) and Part 2 of the Insurance Regulations 2002 (Cth).
Types of insurance products

In this inquiry, we are considering the supply of home, contents and strata insurance products.

- **Home insurance** provides cover for the insured building(s) only. Also referred to as ‘building insurance’, this will often be purchased by landlords (often as part of a landlord insurance policy which can include features like rental protection), and by people who have chosen to buy home and contents insurance from different insurers or brands.

- **Contents insurance** provides cover for contents only, and will often be purchased by renters and by people who have chosen to buy home and contents insurance separately from different insurers or brands.

- **Combined home and contents insurance** provides cover for both the home building and its contents.

- **Strata insurance** is typically required by state and territory legislation to cover the estimated total cost of replacing the common property of a strata scheme.

Strata insurance is typically required by state and territory legislation to cover the estimated total cost of replacing the common property of the strata scheme. The type of property covered by strata insurance will depend on the nature of the strata property. For a multi-level apartment block, most of the building will be covered by the strata policy. However, for a complex with a number of free standing properties, the property covered by the strata policy may be more limited. Strata insurance does not provide coverage for residents’ contents. Residents would generally need to hold separate contents insurance on an individual basis.

The size of home and contents, and strata insurance markets in northern Australia

Home and contents insurance products in northern Australia form a relatively small share of the national market. In 2018–19, the insurers supplied around 240,000 combined home and contents insurance products, 116,000 home insurance products and 119,000 contents insurance products in northern Australia. This represents about 5.6% of the approximately 8.5 million home and/or contents insurance products they supplied nationally.

However, in terms of total premium, northern Australia represents a larger share of the national total. In 2018–19, the insurers collected approximately $733 million in gross written premium in northern Australia, which is close to 10% of the estimated $7.4 billion paid to the insurers by consumers nationally.\(^{17}\)
The trend for strata insurance is similar, with northern Australian premiums making up a larger portion of the national totals than it does by policy numbers. We also note that the strata market in north Western Australia is particularly small, with only around 150 policies in 2018–19.

Claims in northern Australia also make up a higher proportion of national totals than policy numbers. Looking at the averages for all home and contents insurance over the 12 years to 2018–19, northern Australia made up about 5% of total policies, but around 9% of total gross written premium and 12% of total claims costs.\(^\text{18}\) Claims trends are discussed in more detail in chapter 5.

\(^{18}\) This was the average between 2007–08 and 2018–19. Total claims expense is exclusive of reinsurance and other recoveries.
Home, contents and strata is only a part of many insurers’ business

In addition to home, contents and strata insurance, insurers also supply many other types of general insurance, such as motor, Compulsory Third Party (CTP), liability and commercial insurance products. For some insurers, revenue received from home, contents and strata insurance may account for less than a third of their total premium revenue. However, this is not the case for all insurers, particularly banks that offer home and contents insurance as a complementary product to their home loan products.

Overall this means that, for most insurers, home, contents and strata insurance written in northern Australia accounts for only a small proportion of their total gross written premium from all insurance products. For the largest insurer in northern Australia, Suncorp, northern Australian home, contents and strata insurance represents around 3% of its overall gross written premium.

2.2 How home, contents and strata insurance products are supplied

As noted above, there are currently eight insurers supplying (or underwriting) the vast majority of residential home, contents and strata insurance in northern Australia. Suncorp, Allianz, CommInsure, IAG, QBE, RACQ, Westpac, and Youi operate in north Queensland, while Youi and RACQ generally do not supply in the Northern Territory or Western Australia.\(^\text{19}\)

However, most insurers supply home, contents and strata insurance to consumers through multiple distribution channels and under many different brand names.

Distribution channels

In northern Australia, as in Australia more generally, the majority of consumers purchasing home and/or contents insurance engage directly with an insurer or an intermediary acting on behalf of an insurer. While the use of comparison websites is very low, an increasing number of consumers use the services of insurance brokers.

As noted earlier, intermediaries facilitate the placement and purchase of insurance and sit between an insurer and a consumer. Intermediaries differ according to the manner in which they function in the marketplace and in whose interests they act.

‘Insurer intermediary’ means a person who for reward and as an agent of an insurer arranges contracts of insurance.

‘Insurance broker’ means a person who, for reward, and as an agent for a consumer, a body corporate or representative of a body corporate, arranges contracts of insurance.

Insurers may also maintain referral networks of businesses that, while not directly arranging contracts of insurance, will refer customer details and contact information to an insurer in exchange for some form of remuneration (usually a commission). A specific type of referrer are comparison websites such as Finder or Canstar.

In the case of strata insurance products, strata managers also play a central role arranging insurance on behalf of a body corporate, but will typically also have a relationship with insurers and/or insurance brokers.

As part of our inquiry, we obtained detailed information about how insurance products are purchased across Australia, with a focus on the 2017-18 financial year. We have grouped the main distribution channels used when the product purchased was either a home and/or contents product, or a strata product.

In 2017-18, approximately 53% of consumers buying home and/or contents insurance in northern Australia do so directly with the insurer. While approximately 37% do so via an insurer intermediary and

\(^{19}\) Youi only has a very minor presence in north Western Australia.
approximately 9% though an insurance broker. The use of intermediaries is slightly higher in northern Australia than in the rest of Australia, where approximately 58% of consumers buy direct compared to approximately 35% via an insurer intermediary and approximately 6% through an insurance broker. Insurer intermediaries are much more prevalent in north Western Australia accounting for approximately 66% of policies written in that area.

Figure 2.4 shows that consumers purchased their home and/or contents policy through an insurance broker approximately 7% of the time in the north of Western Australia, approximately 13% of the time in the Northern Territory, and approximately 9% of the time in North Queensland. This compares to just over 6% in the rest of Australia.

**Figure 2.4: Proportion of sales by distribution channel for home and/or contents insurance, 2017–18**

The use of insurer intermediaries is also consistent across Australia with the exception of north Western Australia where they accounted for approximately 65% of policies purchased, as above we note that this is likely a reflection of the small number of policies sold in this region.

Referrers (including comparison websites) represent less than 1% of the total distribution of home and/or contents products across Australia. This is not surprising as only two of the insurers from whom we obtained data had agreements with comparison websites. The use of comparison websites in Australia as a whole has not formed part of our analysis, although we anticipate it is low.

In 2017–18, three insurers received a significant proportion of their total gross written premium for home and contents insurance through insurer intermediaries. However, for most insurers, the majority of their gross written premium came through direct sales to consumers.
We have also considered how strata insurance products are supplied. For strata products, approximately 50% of northern Australian strata properties obtain insurance via an insurance broker although this accounts for approximately 64% of gross written premium. Figure 2.6 shows the purchase of a strata products by distribution channels at a regional level.

For the purposes of strata distribution channels, direct refers to a product sold by an insurer or an insurer intermediary to a body corporate committee, strata manager refers to a product sold by an insurer to a strata manager, and insurance broker refers to a product arranged through an insurance broker (either by a strata manager or a body corporate committee).

It is apparent that in north Queensland a significant proportion of the policies are purchased directly from an insurance company by the body corporate committee. We expect that this feature of the data, compared to the rest of Australia, is due to the nature of strata developments in the north of the state. There are a higher number of smaller or less complex strata developments (up to six lots) in North Queensland and as such they may not engage the services of a strata manager or insurance broker. We
expect however that larger or more complex strata developments, which also attract a proportionately larger premium, will engage the services of a strata manager or insurance broker more frequently.

The role of intermediaries and other third parties in insurance markets is considered in more detail in chapter 19.

The role of insurance broker member groups

The insurance broker market is predominantly made up of hundreds of small, privately owned businesses. However, many join an insurance broker member group to realise the benefits of size and scale.

Broker member groups provide independent brokers with enhanced buying power and scale which allows them to better negotiate on policy terms and conditions with insurers. Member groups typically require an insurance broker to purchase a membership to the group and pay ongoing fees in order to gain access to certain policy offers from insurers and access to member group commission rates which can be higher than those offered to independent brokers. Member groups may also receive some or all of the extra commissions paid by insurers.

The insurance broker market is dominated by these member groups—the two largest by share of total premium placed for general insurance in 2020 are Steadfast (44.9%) and AUB (21.9%).

These member groups also either have financial interests in, or partner with, underwriting agencies that are backed by the insurers. For example, Steadfast Group consists of the Steadfast broker network and also Steadfast Underwriting Agencies. This group of underwriting agencies includes strata insurance providers CHU and QUS (QUS is underwritten by AIG and only has a small number of policies in northern Australia).

Chapter 19 considers the role and remuneration of intermediaries in more detail.

The use of multiple brands

Major insurers in Australia supply insurance directly to consumers under multiple brand names. For instance, Suncorp not only supplies insurance under the Suncorp name, but also AAMI, GIO, Vero and others. While IAG brands include NRMA, SGIO, SGIC, and CGU.

Many brand names used by the insurers were initially established as either state government backed insurance offices or state based motoring and mutual insurance associations. Many of these brands are still the largest in their home states.

Insurers may also have particular brands that only sell insurance via consumer intermediaries (primarily insurance brokers).

Where an insurance product is supplied through an insurer intermediary, the product may retain the brand of the insurer, the intermediary may apply its own branding to the insurer’s product, or the product may be ‘co-branded’ by both parties. In all cases, the product is underwritten by the insurer, even when the intermediary is another large financial institution, and this should be stated in the product disclosure statement provided to the consumer.

A key reason insurers supply insurance via a number of different brands (including insurer intermediary brands) is that it allows them to take advantage of consumers’ awareness of well-known brands. That is, they are able to leverage consumer trust in certain brands, such as the former government insurers and motoring associations. The advantage of this is illustrated by the market leading positions of these brands. Further, it allows them to take advantage of the marketing of their intermediaries’ brands, for example Coles, Woolworths or ANZ bank, and reach consumer groups they may not otherwise target.

---

21 A mutual insurance company is owned by policyholders.
22 For example, IAG’s CGU brand and Suncorp’s Vero brand.
In 2018, the eight main insurers in northern Australia supplied home, contents or strata insurance through 30 brands of their own, as well as through a further 119 insurer intermediaries, as detailed below in table 2.1. Insurers’ brands and intermediaries are listed in Appendix B.

Table 2.1: Number of insurer brands and insurer intermediaries for home, contents and strata insurance products, 2018

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Number of insurer brands</th>
<th>Number of insurer intermediaries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suncorp</td>
<td>8</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>Allianz</td>
<td>2</td>
<td>44</td>
<td>46</td>
</tr>
<tr>
<td>CommInsure</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>IAG</td>
<td>8</td>
<td>38</td>
<td>46</td>
</tr>
<tr>
<td>QBE</td>
<td>3</td>
<td>25</td>
<td>28</td>
</tr>
<tr>
<td>RACQ</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Westpac</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Youi</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>119</td>
<td>149</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Note: The number of brands and intermediaries an insurer underwrites can fluctuate year to year and may have changed. Above is an approximation based on data obtained from insurers in 2018.

The range of brands can also be used to target different specific demographics such as Suncorp’s Australian Pensioners Insurance Agency (APIA) specialising in providing insurance for people over the age of 50. Or QBE’s Elders Insurance specialising in providing insurance for those that live in regional communities. These brands target these different consumer groups through marketing, but also via product pricing and coverage.

Not all insurers market their products via multiple brands or through insurer intermediaries. Youi and RACQ only offer insurance via those brand names respectively, while CommInsure only offers insurance under its own brand and its Bankwest brand name.

The extensive use of brands by many insurers, and how this relates to competition, is considered further in chapter 7.
3. Insurance prices in northern Australia

Key points

- No matter how measured, the cost of home, contents and strata insurance is higher for those living in northern Australia, and these costs have become higher over time. Similarly the range of premiums within areas has also increased over time, meaning that some consumers will pay considerably more than the average for their areas, and others less.

- In 2018–19, the average premium for combined home and contents insurance across northern Australia was approximately $2,500, almost double that for the rest of Australia ($1,400). For home insurance, average premiums were around $1,900, again around double the rest of Australia ($900). For contents insurance, the northern Australian average of $600 also well exceeded the average for the rest of Australia ($400).

- Between 2007–08 and 2018–19, average home insurance premiums rose by 178% in real terms in northern Australia (compared to a 52% increase in the rest of Australia) and combined home and contents insurance by 122% (compared to 71% in the rest of Australia). Average contents insurance premiums increased by 33% in northern Australia, but decreased by 3% in real terms in the rest of Australia. Many consumers across northern Australia experienced particularly sharp price increases in the period up to 2012–13.

- For many of the products and regions, there are indications the rate of premium increases is slowing, and in some cases average premiums may even be decreasing. However, this may be in part due to higher-risk properties dropping out of insurance markets altogether in response to high premiums, and may not fully reflect an overall improvement in affordability.

- Of the three northern Australian regions, north Western Australia had the highest average premiums across all insurance products, markedly higher than north Queensland and the Northern Territory. Port Hedland stands out as the most expensive case study area, with half of all consumers paying over $4,600 for combined home and contents insurance and one quarter paying over $6,200. Other high risk cyclone areas also have a substantial proportion of people paying far above the average.

- Average premiums for combined home and contents insurance in the highest priced parts of northern Australia can be more than three times the level of the average in the rest of Australia. Many parts of northern Australia with lower average premiums, still pay more for insurance than most other parts of the country.

- Average excess levels are also generally higher in northern Australia. Average excesses for combined home and contents insurance are generally much higher in north Queensland and north Western Australia ($1,100 for buildings, $690 for contents) compared with the Northern Territory and the rest of Australia ($700 for buildings, around $550 for contents).

- In addition to the sum insured and excess level, there are a number of other factors that can impact premiums, particularly cyclone risk and flood risk. We found that the difference between average premiums paid for the lowest and highest cyclone risk rating level ranged from $1,150 to $3,975, depending on the insurer. For flood risk, the difference in average premiums ranged from $545 to $1,240, depending on the insurer.

- Average premiums also varied considerably with building age, claims history, and the sales channel used: insurance supplied through intermediaries had higher premiums on average.

- In 2018–19 strata insurance premiums in northern Australia remained higher than in the rest of Australia. Average premiums were highest in north Western Australia, at $13,400, which is more than four times the average for the rest of Australia of $3,300. Average premiums were approximately $6,800 in north Queensland, and $7,000 in the Northern Territory.
Premium increases following a claim are larger than for those policies that have not made a claim, and the premium increases are larger for larger claims. Policies that made a large claim have sustained increases in premiums over the five years following the claim.

Stamp duty is levied on insurance premiums as a percentage, so as premiums grow significantly, so too does the dollar value of stamp duty. Residents in higher risk properties that face high insurance premiums will pay more in stamp duty and GST. We consider that this unfairly penalises those living in higher risk areas.

In 2018–19, insurance customers in northern Australia paid $79.6 million in stamp duty on their home, contents and strata insurance contracts: $5.5 million in north Western Australia, $9.4 million in the Northern Territory, and $64.6 million in north Queensland.

Removing stamp duties from insurance products would result in meaningful reductions in insurance premiums for the residents of northern Australia.

The total tax (including GST and stamp duty) collected from home, contents and strata insurance in northern Australia has increased from $48.5 million in 2007–08 to $158.5 million per year in 2018–19.

Premiums for home, contents and strata insurance have risen considerably over the last decade and are much higher in northern Australia than in other parts of the country. Submissions to our inquiry from local residents and property owners, advocacy groups, industry bodies and insurers were consistent with these findings. We have heard consistently from consumers in northern Australia that their premiums were increasing, and that it is becoming increasingly difficult to afford adequate insurance coverage.

Previous reports have described the increasing cost of insurance premiums in northern Australia. For instance, in 2014 the Australian Government Actuary (AGA) found that on average between 2009–10 and 2012–13, home and contents premiums in north Queensland increased by around 80%. The AGA has also found that on average:

- between 2007 and 2012 strata insurance premiums in north Queensland had increased by over 300%
- between 2009–10 and 2012–13 strata insurance premiums in Darwin increased by 60%

In 2015, the Northern Australia Insurance Premiums Taskforce found premiums in towns across northern Western Australia had increased by between 60 and 100% between 2011 and 2015.

This chapter provides consumers, governments and stakeholders with the most comprehensive picture of insurance prices in northern Australia to date. It contains insights drawn from a significant amount of information not available to previous inquiries.

There are a number of factors that can affect the premium paid by a consumer for home, contents and strata insurance. Three factors which can have a significant impact on the premium paid are the peril risk ratings that apply to the property, the amount for which the property is insured (the sum insured) and the excess level selected. This chapter analyses these factors, along with the variability of premiums within areas.


24 Australian Government Actuary, *Report on investigations into strata title insurance price rises in north Queensland*, October 2012, p. 4. These observations were based on premium per sum insured data using data voluntarily provided by three insurers: CGU, Suncorp and Zurich.


26 See Northern Australia Insurance Premiums Taskforce, *Final Report*, November 2015. These observations were based on data provided by the Western Australian government.
3.1 How we have reported on premium trends

Unless otherwise indicated, in this chapter premiums:

- are the average of the premiums for insurance products supplied by insurers at a postcode or regional level
- include GST, stamp duty and applicable levies
- are presented in real terms (in 2018–19 dollars); this means that reported premiums for previous years have been adjusted to remove the effect of general price inflation on price trends
- are based on information reported to us by insurers
- represent actual prices paid by consumers for insurance products (including any commissions built into premiums), but do not include additional fees that may be applied by an insurance broker or strata manager for arranging insurance. They do not include quoted premiums that were not ultimately taken up by consumers for various reasons, such as unaffordability or other reasons
- are also presented as a ratio of premium per $1,000 sum insured to help account for differences in the amount property is insured for between policies and, in aggregate, between areas.

We discuss the premium trends of four types of insurance products in this chapter: home insurance, contents insurance, combined home and contents insurance and strata insurance.

Data sources

We have previously reported on premiums at the postcode level or regional level. In most cases, we reported average premiums although some quartile data was also presented. As we acknowledged at the time, postcode level averages can disguise the considerable diversity of premiums within a postcode or region. To address this, we undertook a number of case studies to better understand the premiums faced by consumers.

We have analysed policy level data for a number of areas across northern Australia (the case study areas) to allow us to gain a better understanding of the range of premiums consumers face, and the factors which affect these. These case studies are presented for each of these areas in chapter 9.

We have also relied on this detailed data about all policies provided in the case study areas in this chapter. We have indicated where our findings are based on the information provided in the case study areas and where they are based on aggregated postcode and regional level data.

3.2 The price of home and contents insurance in northern Australia

Average premiums are considerably higher in northern Australia

Average premiums for home and contents insurance are highest in north Western Australia, followed by north Queensland and then the Northern Territory, as shown by figure 3.1 below.
Chapter 3: Insurance prices in northern Australia

In 2018–19, the average premium for combined home and contents insurance across northern Australia (not shown above) was approximately $2,500, 1.8 times the average premium for the rest of Australia of approximately $1,400. For home insurance, the average premium in northern Australia was about $1,900, 2.1 times the average premium for the rest of Australia of $900. For contents insurance, the average premium in northern Australia was about $600, 1.4 times the average premium for the rest of Australia of $400.

**Variations in premiums across northern Australia**

Many areas in northern Australia have average premiums which are significantly above the northern Australian average or regional average. The following map at figure 3.2 shows how average premiums vary across Australia. As well as showing the variability within northern Australia, this figure clearly demonstrates the differences between northern Australia and the rest of the country.
Figure 3.2:  Average premiums for combined home and contents insurance in Australia, 2018–19

Source: ACCC analysis of data obtained from insurers.

The figure shows that average premiums are highest throughout large areas of north Western Australia, the central/southern region of the Northern Territory, and the coastal area of north Queensland. There are also areas where premiums are high outside of northern Australia, although these are not as widespread. In particular, northern New South Wales and southern Queensland appear to have premiums which are on par with the more expensive parts of northern Australia.

In addition, we have considered the areas across Australia which have the highest premiums and premiums per sum insured. Of the 50 areas with the highest average premiums, 46 are within northern Australia. Similarly, for the highest premiums per sum insured, 47 of these 50 are within northern Australia.

The ten postcodes with the highest average premiums paid in Australia (excluding postcodes with less than 20 policies supplied) for combined home and contents products are listed in table 3.1.27

Average premiums paid are between three and ten times the average price for the southern part of Australia. Nine of the most expensive regions are located in the north of Western Australia, which is consistent with that region having the highest average premiums in northern Australia.

---

27 We have not included postcodes with fewer than 20 polices as they may lead to misleading results.
Table 3.1: Areas with highest average annual premiums for combined home and contents insurance, 2018–19

<table>
<thead>
<tr>
<th>State</th>
<th>Postcode</th>
<th>Area</th>
<th>Average premium paid ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qld</td>
<td>4803</td>
<td>Hamilton Island</td>
<td>14,893</td>
</tr>
<tr>
<td>WA</td>
<td>6721</td>
<td>Port Hedland, Indee, Mundabullangana, Wallareenya</td>
<td>5,959</td>
</tr>
<tr>
<td>WA</td>
<td>6765</td>
<td>Fitzroy Crossing, Mount Hardman</td>
<td>5,544</td>
</tr>
<tr>
<td>WA</td>
<td>6710</td>
<td>Cane, Onslow, Peedamulla, Talandji Yannarie</td>
<td>5,486</td>
</tr>
<tr>
<td>WA</td>
<td>6720</td>
<td>Cossack, Point Samson, Wickham</td>
<td>5,221</td>
</tr>
<tr>
<td>WA</td>
<td>6713</td>
<td>Dampier, Dampier Archipelago</td>
<td>5,159</td>
</tr>
<tr>
<td>WA</td>
<td>6722</td>
<td>Boodarie, De Grey, Finucane, Pippingarra, South Hedland</td>
<td>4,719</td>
</tr>
<tr>
<td>WA</td>
<td>6718</td>
<td>Roebourne, Whim Creek</td>
<td>4,692</td>
</tr>
<tr>
<td>WA</td>
<td>6707</td>
<td>Cape Range National Park, Exmouth, Exmouth Gulf, Learmonth and North West Cape</td>
<td>4,520</td>
</tr>
<tr>
<td>WA</td>
<td>6726</td>
<td>Cable Beach</td>
<td>4,243</td>
</tr>
<tr>
<td>Northern Australia</td>
<td></td>
<td></td>
<td>2,505</td>
</tr>
<tr>
<td>Rest of Australia</td>
<td></td>
<td></td>
<td>1,402</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers

Note: Postcodes with fewer than 20 policies supplied have not been included.

Of the 187 postcodes areas in northern Australia that had policies in place in 2018–19, only seven postcode areas had an average premium for combined home and contents insurance that was below the average for the rest of Australia (approximately $1,400 per annum).

The average price of combined home and contents insurance in even the most affordable parts of northern Australia is higher than average prices in most other parts of the country.

In addition to averages across regions and postcode areas, we have also considered premium trends in more detail in the case study areas. This analysis is outlined below.

**Current distribution of home and contents insurance premiums**

The distribution of premiums for combined home and contents insurance in the case study areas shows that individual premium levels differ significantly in northern Australia. A significant proportion of consumers in these areas pay premiums significantly above the average premium. This is illustrated in figure 3.3 below.

---

28 See chapter 1 for a description of these areas, and chapter 9 for the full case studies.
This likely reflects the range of natural peril risk across the regions because of a high degree of insurer uncertainty over peril risk. We note this dynamic has led to high variation of insurer address level pricing within an area, and consumers receiving very different premiums. How insurers calculate premiums is discussed in detail in chapter 4.

Port Hedland is the most expensive region by far, with half of all consumers paying over $4,630, and a quarter paying over $6,225 for home and contents insurance. Other high cyclone risk areas (Townsville, Mackay and Cooktown) also had a substantial proportion of people paying far above the average.

Kununurra and Katherine had comparatively low median levels at around $1,900, but many premiums are significantly higher, likely indicative of the flood risk in parts of those postcodes. Alice Springs has a similar low risk profile to the non-northern Australian regions of Roma and Goulburn, where the distribution is uniformly lower.

Port Hedland also has the largest variation in premiums across the region, with the upper and lower decile of premiums separated by $6,350, whereas the next most expensive regions of Mackay to Airlie Beach and Townsville are separated by around $2,925. This is again larger than the distribution in the case study areas outside of northern Australia, where the difference is around $1,500.

The Mackay to Airlie Beach region is exposed to cyclone and flood risks and some properties have higher exposure than others. Figure 3.4 shows the distribution of premiums for combined home and contents insurance for six insurers in Mackay (postcodes 4740 and 4741).
In figure 3.4, insurers 1 to 4 have a similar profile, indicative of the range of risk ratings and property characteristics in the area. The distribution of premiums for insurer 5 is skewed to more expensive premiums, which could indicate the properties insured tend to represent higher risks. Conversely, insurer 6 appears to take a different approach to the other insurers, as almost 80% of their portfolio is paying less than $2,500. This is likely to be because of a different customer acquisition strategy or a more selective customer retention strategy, rather than indicative of potential savings, in particular for higher risk properties, which customers could gain from switching to this insurer.

**Premium increases over time**

**Increases in average premiums since 2007**

Between 2007–08 and 2018–19, in northern Australia, average premiums rose 178% for home insurance, 122% for combined home and contents insurance and 33% for contents insurance, in real terms. In the rest of Australia, average premiums increased by 52% for home insurance and 71% for combined home and contents insurance. While average premiums decreased by 3% in real terms for contents insurance. As discussed further below, some, but not all of the increases, have been because of increases in sums insured.

Increases in average premiums over this period were greatest in north Queensland. Figure 3.5 shows average premiums for combined home and contents insurance increased by 127% for north Queensland, 95% for north Western Australia and 90% for the Northern Territory. This contrasts with a 52% increase in average premiums in the rest of Australia.
The greatest increases in average premiums occurred between 2010–11 and 2013–14. Many insurers reassessed the way that they set insurance premiums following high catastrophe claims in 2010–11. For example, one insurer asked an industry specialist to assess the technical premium required to cover cyclone costs in north Queensland. The specialist’s model indicated that the insurer needed to increase premiums for building insurance by 70% for policies north of Mackay, and the insurer implemented this change.

We have also considered changes in premium distribution in the case study areas.

**Changes in premium distributions over time**

The distribution of premiums has shifted upwards in the years since 2008–09. As illustrated in figure 3.6 below, the cost of combined home and contents insurance doubled in the northern Australia case study areas in real terms between 2008–09 and 2018–19 across each of the measures (i.e. the deciles, quartiles and the median). As for the increase in average premiums, it largely occurred between 2008–09 and 2012–13 and then plateaued in the subsequent years.
While there has been an increase in the dollar range of premiums paid by consumers in the case study areas, the relative span of premium distributions has remained similar over time in that premiums across the distribution have increased at broadly similar rates.

Figures 3.7 and 3.8 below show the proportion of premiums in each premium bracket in the relatively high risk areas of Port Hedland and Townsville, and the relatively lower risk areas of Katherine, Roma and Goulburn in 2008–09 and 2018–19. Comparison of the two charts shows that previously the distribution was highly concentrated at lower premium levels. But by 2018–19 the distribution is much more spread out across all three areas, consistent with insurers’ moves towards address level pricing over this time. This change was more pronounced in the northern Australia case study areas.
The effect of sums insured on insurance premiums

Sums insured have a large impact on premiums. While the effect will depend on a range of factors, in general we have seen that increasing the building sum insured by $100,000 increases premium by between $200 and $400 in northern Australia.

The estimated sum insured for a building will be based primarily on the estimated rebuilding cost (and in some cases, an extra allowance for ancillary costs). Building costs are generally higher in northern Australia for a variety of reasons, such as remoteness and the application of higher building standards (considered further in chapters 5 and 13). As a result, a house with particular characteristics may have a considerably higher estimated sum insured in northern Australia than it would in a capital city. Higher average sums insured do not necessarily indicate larger or higher quality homes.

Consumers are generally free to select the sum insured for their property, within a range decided by an insurer. Some insurers will also automatically index sum insured figures when policies are renewed.

One insurer says it draws on the information supplied by a third party provider to assist customers to determine an estimated sum insured value based on the information supplied about the specifications of their home. Information such as the construction date, the size of the home, the materials and quality of construction, and the slope of the block of land, are considered in conjunction with the postcode/location of the home to assist with the accuracy of the sum insured range provided. The insurer also noted the cost to rebuild in regional or country areas may be slightly higher because of the availability of materials and labour, transport costs, and costs to move machinery needed to construct homes.

Insurers generally apply an automatic indexation to the sum insured values as a measure to prevent underinsurance for renewing customers. Increases reflect the costs of materials and labour, and at a minimum are adjusted for increases in the consumer price index. We found that insurers apply about 3 to 10% increases (mostly 5%) to the sums insured for home insurance in standalone or combined insurance products, and slightly less for contents insurance products. Some insurers indicate that these increases are based on changes to a third party provider’s building indices.

Consumers have the option to accept the suggested indexation, or pick a different sum insured value that the consumer regards as a more accurate picture of the replacement cost of their property. This ability to select a higher or lower sum insured value enables consumers to over-insure and under-insure their properties.
Some insurers prevent underinsurance by imposing minimum sum insured values into their online quoting calculators (for example, 60% and 75% of the estimated value). One insurer sets minimum sum insured values for its distribution channels. Another insurer does not accept sum insured values below $150,000. Any sum insured values chosen below this minimum will return the equivalent premium for a $150,000 sum insured property. One insurer operates under a General Advice licence and does not provide advice on the appropriateness of a customer’s sum insured, relying on a customer to determine the appropriate sum to insure for their property (with reference to online sum insured calculators). However, in the event of a claim, where a customer has selected a sum insured value below the cost of repair or replacement, this insurer offers a gap cover that provides up to a further 25% on top of the sum insured towards the cost of a claim.

Most insurers will provide home insurance to high-value homes, however above certain levels, insurance is provided on a case by case basis. For example, one insurer has set a maximum sum insured value of $2 million as a system limit but with approval, insurance cover can be provided up to $10 million. Other insurers have upper limits of between $10 million and $25 million. We note this is likely to be because of reinsurance treaties in place that provide cover up to a certain sum insured value.

Information provided by insurers suggests that around 3,540 customers in northern Australia selected a sum insured value lower than the minimum amount as determined by an insurer (only 220 customers opted for a sum insured higher than the amount determined).

The sum insured under an insurance policy has a large impact on the size of the premium. Therefore, while average premium and premium distribution figures provide a good indication of the actual prices consumers pay for insurance, they do not take into account the differences in the sums insured.

Figure 3.9 below shows the premium and sum insured for each home (only) insurance policy in Mackay in 2018–19. Only policies with an excess of between $500 and $1,000 are shown. This is the most common excess bracket for home insurance policies and includes 41.5% of all policies in Mackay. It shows a clear positive relationship between sum insured and premium.

Figure 3.9: Premium and sum insured for home insurance in Mackay with excess between $500 and $1,000, 2018–19, real $2018–19

Source: ACCC analysis of data obtained from insurers.

A similar effect is observed for contents only insurance. Figure 3.10 below shows premiums and excesses for contents products in Mackay in the most common excess bracket of $400–$600.
The rate of increase for contents policies in this bracket is $66 per $10,000 sum insured. For building policies it is $40 per $10,000 sum insured for policies in the $500–$1,000 bracket.

Similar trends are observed when we consider different excess brackets or regions, although the trend line is flatter for higher excess brackets. In the following section we consider premiums per $1,000 sum insured, and other ways of accounting for sums insured, in considering premium trends.

**Average premium per $1,000 sum insured**

Consistent with the historical trend, the average premium per $1,000 sum insured in northern Australia was higher than the rest of Australia for all three types of home and contents insurance products in 2018–19. As illustrated by figure 3.11, average premium per $1,000 sum insured was highest in north Western Australia, followed by north Queensland and then the Northern Territory.

Source: ACCC analysis of data obtained from insurers.
Average premiums per $1,000 sum insured have not increased to the same extent as average premiums between 2007–08 and 2018–19. This is largely because sums insured for home insurance, and combined home and contents insurance have increased in the same period. This is also because the ratio of the marginal increase in premium to the marginal increase in sum insured for a particular property is generally lower than the existing ratio. So where sum insured for a property increases, through indexation of other reasons, the premium will increase but there will be downward pressure on the premium per $1,000 sum insured figure for that property.

Figure 3.12 below shows that the increases in average premium per $1,000 sum insured for combined home and contents insurance in northern Australia—particularly for north Western Australia and north Queensland—have been larger than in the rest of Australia.

Figure 3.12: Average premium per $1,000 sum insured for combined home and contents insurance, 2007–08 to 2018–19, real $2018–19

Source: ACCC analysis of data obtained from insurers.

Between 2007–08 and 2018–19 the average premium per $1,000 sum insured rose by 22% in the Northern Territory, 42% in north Western Australia and 72% in north Queensland. The average premium per $1,000 sum insured in the rest of Australia was fairly flat over the period, and only increased by 8%.

**Premium per $1,000 sum insured (per policy compared with regional aggregate)**

To take into account differences in the value of property insured between regions, we have used the premium per $1,000 sum insured measure. Examining data in this method does not fully capture the premiums per $1,000 sum insured at the policy level within a region. We note that, in most cases, the average of individuals’ premium per $1,000 sum insured ratios is usually higher than the ratio of an area’s average premium and average sum insured.

In figure 3.13 we can observe this nuance, for example the difference in the Port Hedland ratio is around 8% in 2018–19, when the policy level ratio is compared with aggregate for the region (11% for Katherine and 8% for Townsville).

---

29 Between 2007–08 and 2018–19, average sums insured under home insurance and combined home and contents insurance in northern Australia increased in real terms by 45% and 41% respectively. However, average sum insured under contents insurance policies had decreased by 4%.
**Chapter 3: Insurance prices in northern Australia**

Figure 3.13: Average premium per $1,000 sum insured for combined home and contents insurance in selected case study areas calculated at policy level and at aggregated regional level, 2013–14 to 2018–19

<table>
<thead>
<tr>
<th>Year</th>
<th>Port Hedland (per policy)</th>
<th>Katherine (per policy)</th>
<th>Townsville (per policy)</th>
<th>Port Hedland (average)</th>
<th>Katherine (average)</th>
<th>Townsville (average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013–14</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014–15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015–16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016–17</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017–18</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018–19</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

**Distribution of premiums per sums insured in selected case study areas**

Figures 3.14 to 3.16 show three case study areas in northern Australia which have varying profiles in terms of exposure to cyclone and flood risks, and the level of building standards which apply to home construction.

In Townsville, we can observe that in 2008–09, a larger proportion of insurers’ policies had a premium per $1,000 sum insured below $4. However, in the following five-year period as address level pricing was introduced, there were more insurance customers paying higher than $4 per $1,000 sum insured. The average of individuals’ premium per $1,000 sum insured was around $3 in 2008–09, increasing to $6.50 in 2013–14, and slightly decreasing to $6.10 in 2018–19. We note the slight decrease may be because of factors such as lower sum insured values and use of excess levels as a means to manage insurance premiums.

Figure 3.14: Townsville, proportion of policies by premium per $1,000 sum insured bracket for home insurance products, 2018–19

Source: ACCC analysis of data obtained from insurers.
Figure 3.15 shows that in Port Hedland, insurance customers generally pay high premiums per $1,000 sum insured. We note this has progressively increased through the period and over 6% of customers pay more than $20 per $1,000 sum insured for their home insurance products in 2018–19. The average premium per $1,000 sum insured was $10.50, increasing from $7.40 and $5.90 in 2013–14 and 2008–09 respectively. We note this may be because of several factors such as the higher cyclone risk ratings attributed to this region, its remote location and the cost to design and build homes to a higher building standard.

![Figure 3.15: Port Hedland, proportion of policies by premium per $1,000 sum insured bracket for home insurance products, 2018–19](image)

Proportion of policies

<table>
<thead>
<tr>
<th>Premium per $1,000 sum insured bracket ($)</th>
<th>2008–09</th>
<th>2013–14</th>
<th>2018–19</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1–2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2–3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3–4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4–5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5–6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6–7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7–8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8–9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9–10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10–11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11–12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12–13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13–14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14–15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15–16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16–17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17–18</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18–19</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19–20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt;20</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Figure 3.16 shows that in Katherine, the vast majority of consumers have not seen a great shift in the premiums per $1,000 sum insured over the 10-year period to 2018–19. This is likely to be because of factors such as the location and risk ratings of the area. We note the average premium was around $1,550 for home insurance products in Katherine in 2018–19. The average premium per $1,000 sum insured has remained relatively steady between the brackets $0–1 to $3–4. The small increase is likely to be because of inflationary factors related to the cost of materials and labour for repairs and rebuilds.
Comparison across sum insured brackets

A second way in which we have accounted for differences in sums insured is to group premiums for properties with similar sums insured. We note that in the following analysis we have considered premium trends for home insurance and the building component of combined home and contents insurance (i.e. home insurance cover). We note that trends described below are similar for contents insurance products.

Over the period 2008–09 to 2018–19, the average real premium increase for home insurance across all properties in the northern Australia case study areas was 126%. Figure 3.17 below shows this and the increases in average premium across different sum insured brackets. Premiums have increased for each of these brackets in line with the overall trend. One notable exception is in the higher sum insured brackets, where a decrease in average premiums can be observed from 2014–15 to 2018–19. This is most pronounced in the $600,000 to $800,000 bracket, for which premiums decreased by 14% in this period.
Figure 3.17: Average premium for home insurance cover in northern Australia case study areas by sum insured bracket, 2008–09 to 2018–19, real $2018–19

![Graph showing average premiums](image)

Source: ACCC analysis of data obtained from insurers.

**Sum insured trends**

Figure 3.18 looks at sum insured trends to consider how consumers may be reducing their sums insured (and potentially underinsuring), as well as how automatic indexing of sums insured by insurers could be leading to ‘over-insurance.’

As noted above, average sums insured have increased across northern Australia for home insurance as well as combined home and contents insurance (primarily because of increases in the building component of coverage). We see that other measures of the distribution of premiums have also increased over the last 10 years, as illustrated by figure 3.18 below.

Figure 3.18: Distribution of sums insured for combined home and contents insurance in northern Australia (NA) and rest of Australia (RoA) case study areas, and the average sum insured aggregated at the regional level for northern Australia and rest of Australia, 2008–09 to 2018–19, real $2018–19

![Graph showing distribution of sums insured](image)

Source: ACCC analysis of data obtained from insurers.

Note: Values are shown across all insurers, premiums, risk ratings, and levels of excess for the case study areas in northern Australia. The box shows the middle 50% of values. The line across the box represents the median point. The line above the box extends to the 90th percentile, while the line below the box extends to the 10th percentile. Refer to page 6 for a further explanation. The average sum insured is also shown in aggregate for each region.
The above figure shows that sums insured have increased more rapidly in the rest of Australia than northern Australia. While average sums insured were very similar between these regions from 2008–09 to 2011–12, they began to diverge after this. By 2018–19, the average sum insured value for combined home and contents insurance is around $80,000 to $100,000 greater in the case study areas outside of northern Australia than those in northern Australia.

In 2018–19, the lower quartiles and the upper quartiles of the distribution of sums insured in case study areas outside of northern Australia were, respectively, around 26 and 21% higher than those in northern Australia case study areas. This contrasts with the differences of about 5% for lower quartiles and 14% for upper quartiles in 2008–09. We can observe that 75% of the properties in the rest of Australia case study areas have sum insured values up to $730,000 in 2018–19, around $109,000 more than the 75th percentile level (the upper quartile) in the northern Australia case study areas.

The large differences in sums insured values between northern Australia and the rest of Australia case study areas seem unusual given we have seen evidence that construction costs can be higher in the more remote parts of northern Australia, and that properties in northern Australia are developed to a higher building standard.

The differences in sum insured values began to emerge after 2011–12 when insurance premiums in northern Australia began to increase. These trends suggest that as premiums increased in northern Australia, some consumers in this region might have frozen or even lowered their sums insured to manage premium increases.

**Sums insured for new and renewing customers**

In 2018–19, renewing customers had considerably higher sums insured compared to new customers, particularly in northern Australian regions. This is illustrated in figure 3.19 below which shows the range of sums insured in the northern Australia case study areas, for new and renewing customers.

![Distribution of sums insured for new and renewing customers for home insurance products in case study areas grouped by regions, 2018–19, real $2018–19](image)

Source: ACCC analysis of data obtained from insurers.

Note: Values are shown across all insurers, premiums, risk ratings, and levels of excess. The box shows the middle 50% of values. The line across the box represents the median point. The line above the box extends to the 90th percentile, while the line below the box extends to the 10th percentile. Refer to page 6 for a further explanation. The average sum insured value is also shown.

These differences could be explained by newer housing stock being smaller on average than existing housing stock, however newer housing tends to be built to higher specifications (and therefore a higher estimated sum insured). It appears more likely that the difference between sums insured for new and renewing customers is at least partly the result of renewing customers accepting the automatic indexing of sums insured by insurers when customers renew their premiums.
New customers switching insurers because of affordability concerns may also adjust their sum insured value to reduce quoted premiums.

Figure 3.20 below shows how average sum insured values for the home insurance products in the case study regions changed for new and renewing customers over the last 10 years. Insurers will often automatically index the building sums insured when policies are renewed, which is likely to be the main driver of the steady growth in average sums insured for renewing customers in both northern Australia and the rest of Australia.

The figure shows that new customers tend to have lower sum insured values than existing customers. In northern Australia case study areas this difference has grown in recent years and is around 12%, whereas in the rest of Australia the difference is around 9% in 2018–19.

While some of this difference in northern Australia will be because of differences in the cost of new housing stock compared with existing housing stock, it is also consistent with consumers selecting lower sums insured when switching insurers, as a means of reducing quoted premiums.

Figure 3.20: Average sum insured values for new and renewing customers for home insurance products in northern Australia and rest of Australia case study areas, 2008–09 to 2018–19, real $2018–19

Source: ACCC analysis of data obtained from insurers.

**The effect of excess levels on premiums**

An insurance excess is the amount of money a consumer is required to pay towards the costs of a claim they make. The higher the excess a consumer selects, the lower their premium will be. Therefore, it is important to consider the excess levels when interpreting premium levels and movements.

Considering premiums for policies in different excess brackets shows that premiums for lower excess policies are between 12 and 29% more expensive than those policies with higher excesses. This is illustrated in figure 3.21 below.
The highest reductions in premiums for customers moving from an excess of between $0 and $1,500 to an excess of between $3,000 and $4,500 were seen for consumers in Port Hedland at $640 (or 12%), and the smallest for consumers in Goulburn at $340 (or 23%). The highest percentage reduction in premiums was 29%, for consumers in Roma.

Excess levels in northern Australia

We found that the average excess levels selected by policyholders in north Queensland and north Western Australia were around 50 to 60% higher than average excess levels selected by policyholders in the rest of Australia for home insurance and the building component of combined home and contents insurance.

Table 3.2 provides the average excess levels of the home and contents insurance products in 2018–19.

Excess levels selected by consumers in north Queensland and north Western Australia are generally much higher compared with the Northern Territory and the rest of Australia.

In addition to considering average excess levels, we have also looked at the distribution of excesses in the case study areas.

How excess levels have changed over the last decade

While average excess levels are higher in northern Australia than the rest of Australia, we have also seen that the range of excesses selected in northern Australia can be larger, and some consumers in northern Australia have excesses that are well above the average for the region. Further, we have also
seen that the range of excesses selected has increased over the last 10 years. These trends are shown in figure 3.22 below.

**Figure 3.22:** Distribution of excess levels for combined home and contents insurance in case study areas grouped by regions, 2008–09, 2013–14 and 2018–19, real $2018–19

The above also shows that increases in the range of excess levels have been greater in northern Australia case study areas. For around 25% of policies in the north Western Australia and north Queensland case study areas, excess levels were $2,000 or more. Ten per cent of consumers in the north Western Australia case study areas had excesses of over $5,000, and in Queensland over $4,000. This is much larger than the equivalent figure of $2,000 in the case study areas outside of northern Australia.

Setting excesses at these levels reduces the likelihood of making smaller claims, and insurance is therefore predominantly purchased for the ‘worst case scenarios’ (as discussed below).

It also appears that increases in excess levels have corresponded with increases in premiums for home and contents insurance, again suggesting that consumers are using excesses as a way to manage higher premiums. Figure 3.23 illustrates this trend.
There are similar trends for contents insurance products by customers in northern Australia case study areas, as shown in figure 3.24. Excess levels for contents insurance are generally lower than for home insurance products. In 2018–19, we found that contents insurance products are broadly similar across Australia with most customers choosing an excess of between $300 and $500. However, the proportion of customers selecting higher excess levels is progressively increasing.

Source: ACCC analysis of data obtained from insurers.
How excess levels impact consumers

The higher the excess level, the more a consumer must contribute when making a claim. This is why insurers provide a lower insurance premium when a higher excess level is selected by a consumer. As such, when we consider the higher average excess levels in northern Australia, the premium differences between northern Australia and the rest of Australia are even more stark.

Differences in excess levels will also impact how likely a consumer is to make a claim. Figure 3.25 shows that the claim frequency is lower for higher excess brackets, and this trend has remained consistent over the last three years. Claims frequency is measured as the proportion of consumers making a claim each year. Higher excesses essentially remove all smaller claims typically made by consumers as it would be more cost effective for a consumer to fund the repairs or replacement without making a claim against their insurance policy. Figure 3.25 also shows that excess levels do not have a notable impact on claims frequency because of natural disasters. The higher claims frequency in 2016–17 and 2018–19 were because of natural disaster events and this has resulted in some increases across each excess bracket compared with 2017–18, which was a comparably low claims event year.

![Figure 3.25: Claims frequency by excess brackets for home insurance products in northern Australia, 2018–19](image)

Source: ACCC analysis of data obtained from insurers.

Impact of peril risk rating on premiums in northern Australia

High cyclone risk and, to a lesser extent, flood risk are driving higher premiums in northern Australia. In this section we have considered how peril risk impacts insurance premiums. We primarily look at home insurance products, which include: home insurance, and the building component of combined home and contents insurance. This is because home buildings are more susceptible to damage from natural perils than contents.

Cyclone risk

In 2018–19 we found that the difference in average premiums between the lowest and highest cyclone risk rating levels ranged from $1,150 to $3,975 (depending on the insurer) for home insurance products in the northern Australia case study areas.30

Figure 3.26 shows the average premiums in the highest cyclone risk rating levels are substantially higher than the average premiums in lower risk rating levels.

---

30 We have grouped insurers’ risk ratings into five risk rating levels for illustrative purposes and do not represent quintiles or deciles. As noted in chapter 1, insurer risk ratings are not directly comparable across insurers.
Further, figure 3.27 shows that for the top 10% of policies in the highest cyclone risk rating level, premiums can be over $4,700, whereas for the top 10% of policies in the lowest risk rating level, premiums are over $2,425. We note the increase in average premium between the first four cyclone risk rating levels are broadly consistent (between $300 and $360). However, the increase in average premium between the fourth and fifth cyclone risk rating levels is substantial (around $645).

We have grouped risk rating levels provided by this insurer into a smaller number of levels.
Flood risk

Flood risk in northern Australia is high for particular regions. As with cyclones, we have seen that flood risk can have a significant impact on premiums.

In 2018–19, for the three insurers shown in figure 3.28, the difference in average premiums between the lowest and highest risk rating levels ranged from $545 to $1,240 (representing a difference of 33 to 54%). We found that average premiums in higher flood risk rating levels are, on average, higher than the average premiums in lower flood risk rating levels. We also note the trend may not be as linear as the flood risk rating would indicate, primarily because there are a number of variables such as other peril risk (for example cyclone risk), sum insured values and selected excess levels that can influence premium amounts.

Figure 3.28: Average premiums for home insurance products of three insurers in northern Australia case study areas by flood risk rating levels, 2018–19, real $2018–19

![Flood risk category and premiums graph]

Source: ACCC analysis of data obtained from insurers.
Note: We have grouped risk rating levels provided by insurers into a smaller number of levels. Risk rating levels are not equivalent across insurers.

We note the extent of flood coverage increased from 50% to 97% for combined home and contents insurance, from 2008–09 to 2018–19. Since 2014–15 there have been only approximately 1,970 policies each year without flood cover in northern Australia, down from 30,000 policies in 2008–09. This shift began in 2011–12, with the introduction of the standardised definition of flood cover and insurers electing to make flood coverage mandatory.31

How other factors affect premiums

In addition to excess and sum insured, there are a number of other factors which can impact insurance premiums, including whether home and contents insurance is purchased as a combined product, building age, sales channel, or claims history. This section considers these factors.

Bundling

Across Australia, the cost of both home cover and contents cover is cheaper (in terms of premium per sum insured) as part of a combined home and contents product than as a standalone product. Looking at average premiums per sum insured for the whole of Australia, home insurance is about 16% higher as a standalone product than as part of a combined home and contents insurance product, while contents cover is around 31% more as shown in table 3.3 below.

Table 3.3: Premium per $1,000 sum insured for combined and standalone building and contents cover, 2018–19

<table>
<thead>
<tr>
<th></th>
<th>Premium per $1,000 sum insured building</th>
<th>Premium per $1,000 sum insured contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined</td>
<td>1.96</td>
<td>4.17</td>
</tr>
<tr>
<td>Standalone</td>
<td>2.27</td>
<td>5.47</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers

This means that consumers seeking only building or contents cover, such as renters and landlords, will pay more for their cover (measured in terms of premium per sum insured) than consumers purchasing a combined home and contents product. This would also be the case for consumers looking to obtain home insurance and contents insurance through separate brands of insurers.

For contents insurance, this can partly be explained by the higher excesses (on average) for the contents component of combined home and contents products, as shown in table 3.2 previously. However, excess levels for the building component of combined products are on average lower than for home (building) only products, making this effect more notable.

Building age

We have observed that older buildings generally have higher premiums but this is a trend that has become more pronounced over time. Figure 3.29 shows the average premium per $1,000 sum insured for buildings of different ages in the case study areas in 2008–09, 2013–14 and 2018–19.

Figure 3.29: Average premium per $1,000 sum insured for home insurance products in northern Australia case study areas by building construction year

Source: ACCC analysis of data obtained from insurers.

Figure 3.29 also shows that buildings constructed between 1930 and 1980 had a very similar average premium per $1,000 sum insured in 2008–09. This suggests that aside from a discount for buildings constructed post 1980, insurers were not using the age of older buildings as an important rating factor in setting premiums.

For policies written in 2013–14 and 2018–19 there were substantial increases in average premium levels across all building ages, but the increase was larger for older properties and the range between 1930 to 1980 is no longer relatively flat. This is more pronounced in 2018–19 than in 2013–14 and is representative of an increasing difference in pricing for old properties compared with new properties over time.
Overall, this suggests that insurers are increasingly considering building age, and other correlated factors such as building materials and construction standard, when determining the policy premiums. The impact of building features on premiums, and the potential for improved building standards to lower future premiums is considered in chapters 8 and 13.

Sales channel

The sales channel insurance is purchased through can have a notable effect on premiums.

Figure 3.30 below shows the average premium and premium distribution for combined home and contents policies in 2018–19 for policies in the northern Australia case study areas.

It suggests that, the lowest premiums are generally those provided online, both in the average and across the other measures of premium distribution. This difference can likely be attributed to the overall lower costs of selling a policy online and insurers’ use of online discounts.

Policies sold through consumer intermediaries (usually brokers) were on average more expensive than policies sold online by 14%, roughly on par with policies sold over the telephone. This may be because of larger sales costs of the distribution channel and commission costs, but could also be influenced by differences in the risk profile of customers using insurance broker services.

Policies sold through insurer intermediaries (such as authorised representatives or distributors) were the most expensive, on average, by 16% more than policies sold online. Again, this may be a result of higher distribution and commission costs. Policies sold through insurer intermediaries were also the most expensive at the upper quartile and decile.

The above trends are generally similar across regions and at different levels of sum insured.
Claims history

We have observed that following a claim, premium increases are larger than for policies that have not made a claim, and that the premium increases are larger for larger claims. Figure 3.31 below shows the cumulative change in premium over the five years following a claim for home, contents, or combined home and contents insurance policies. The chart shows the average premium change following a claim of less than $10,000 (small claim), between $10,000 and $50,000 (medium claim), or over $50,000 (large claim), and the average rate of increase for policies that have not made a claim.\footnote{Note that this chart only tracks customers who stay with the same insurer in the years following a claim. Premium changes for consumers who switch insurers are not tracked.}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3.31.png}
\caption{Cumulative change in premiums for home, contents, and combined home and contents insurance policies following a claim, by claim size, 2008–09 to 2017–18, real $2018–19}
\end{figure}

For small and medium size claims, the increase in premium in the years immediately after the claim is notably above the $77 average for policies that have not made a claim. Following a small claim, average premiums rise by $188, and by $292 following a medium sized claim. However, this tapers off over five years until the annual increase is only slightly above the rate of increase for a policy that had not made a claim.

This is not the case for large claims (over $50,000). Policies that made a large claim have sustained increases in premiums over the five years following the claim, with no similar tapering off effect. The average increase in the first year following the claim is $403, and in the fifth year the average increase is still substantially above the no claims average, at $193 compared with $77.

3.3 The price of strata insurance in northern Australia

Average premiums across northern Australia

Under state and territory legislation the body corporate, or owners’ corporation must purchase strata insurance to cover the estimated total cost of replacing the common property of the strata scheme.\footnote{Chapter 17 summarises the legislative requirements applicable in Western Australia, Northern Territory and Queensland.}

The type of property covered by strata insurance will depend on the nature of the strata property. For example, for a multi-level apartment block, most of the building will be covered by the strata policy. Whereas, for a strata complex with a number of free standing properties the property covered may be more limited, such as common driveways or gardens. Strata insurance does not provide coverage for residents’ contents and residents of strata complexes generally hold their own separate contents insurance.
The premiums reported in this section are for entire strata complexes and do not take into account the size of the complex or the number of dwellings covered (i.e. we have not reported strata premiums on a per dwelling or per unit basis). They also do not include additional fees that may be applied by an insurance broker or strata manager for arranging insurance. Chapter 16 considers strata insurance issues in more detail, including how premiums vary with the size of strata properties.

There can be wide variations in average annual premiums for strata policies, depending on the type and size of strata title property insured in the relevant area. However, examining premiums per $1,000 sum insured can to a certain extent take into account the difference in the size of insured properties.

In 2018–19 strata insurance premiums in northern Australia remained higher than in the rest of Australia. Figure 3.32 below shows that in 2018–19, average premium was highest in north Western Australia, at $13,400; this is 4.1 times the average for the rest of Australia of $3,300. Average premiums were approximately $6,800 in north Queensland and $7,000 in the Northern Territory.

If we look at average premiums in isolation, it would appear that average premiums in north Queensland and the Northern Territory were similar. However, when we take into the account the values of sums insured, the costs of insurance in north Queensland were much higher. The average premium per $1,000 sum insured in 2018–19 was highest in north Western Australia, followed by north Queensland and then the Northern Territory, with all of them higher than the rest of Australia.

**Figure 3.32: Average premium and premium per $1,000 insured for strata insurance, 2018–19, real $2018–19**

Further, we have also seen that premiums have increased substantially in northern Australia since 2007–08.

Figure 3.33 shows average premium per $1,000 sum insured for strata insurance in each region between 2007–08 and 2018–19. Premiums per $1,000 sum insured in north Western Australia and north Queensland peaked in 2011–12, but have fallen gradually since then. In contrast, premium per $1,000 sum insured in the rest of Australia and the Northern Territory have not changed substantially over the same period.
Strata premium distributions over time

Across all strata properties, there was significant movement in the distribution of premiums when adjusted for sums insured, as seen in figure 3.34. On a premium per $1,000 sum insured basis, the distribution tightened as it rose until 2011–12, then began to expand again as average premium per $1,000 sum insured dropped. This contraction in 2011–12 is consistent with insurers relying on sum insured as a metric to price premiums, with less differentiation between properties on other metrics. Once the rapid premium increases had occurred, insurers appeared to adjust their models to balance for other characteristics and focus on address-level pricing and the distribution spread out again.

Source: ACCC analysis of data obtained from insurers.

Note: Values are shown across all insurers, risk ratings, levels of excess, and sums insured. The box shows the middle 50% of values. The line across the box represents the median point. The line above the box extends to the 90th percentile, while the line below the box extends to the 10th percentile. Refer to page 6 for a further explanation. The average premium is also shown.
Sum insured trends

Most strata insurers do not set minimum requirements for sum insured values, however some insurers have maximum sum insured values which can range from $5 million to $400 million. Where strata properties are seeking coverage beyond these boundaries, coverage is generally considered on a case by case basis.

One insurer notes owners corporations are obligated to comply with state legislation to insure for the full replacement value of assets (including common property), as determined by a professional valuation. The insurer noted it would generally accept the valuation (provided the valuation is less than five years old) as being the reasonable amount required to be insured.

Figure 3.35 shows the distribution of sums insured for all strata properties in northern Australia case study areas. We can observe a steady decrease in the range of sums insured between 2012–13 and 2017–18.

In general, and as discussed in section 3.2, insurers automatically adjust the sum insured values up by varying amounts, often between 4 to 5% a year.

Taking excess levels into account

Strata insurance products provide coverage for losses or damage to common property under management of the body corporate, and for public liability. Strata policies can have two sets of excess levels, including the standard excess and an excess for named weather events (such as cyclones) set at a higher level.

Current excess levels in northern Australia

The average excess levels for strata insurance in northern Australia in 2018–19 were much higher than in the rest of Australia as shown in table 3.4 below. Table 3.4 also shows that excess levels have increased considerably over the 10-year period in all regions, but that the change has been larger in northern Australia compared with the rest of Australia. This is consistent with body corporates increasing excess levels as a way to deal with increasing premiums for strata insurance.
Table 3.4: Average excess levels for strata insurance in 2007–08 and 2018–19, and the percentage change between 2007–08 and 2018–19, real $2018–19

<table>
<thead>
<tr>
<th>Region</th>
<th>Average excess 2007–08 ($)</th>
<th>Average excess 2018–19 ($)</th>
<th>Percentage increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Western Australia</td>
<td>180</td>
<td>1,210</td>
<td>580</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>170</td>
<td>650</td>
<td>290</td>
</tr>
<tr>
<td>North Queensland</td>
<td>50</td>
<td>810</td>
<td>1,490</td>
</tr>
<tr>
<td>The rest of Australia</td>
<td>90</td>
<td>310</td>
<td>220</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Note: A proportion of insurance policies had zero excess.

We have also looked at excess levels in more detail by considering their distribution.

**Distribution of excess levels**

Excess levels for strata insurance in the case study areas were generally below $1,000, as shown in table 3.5 below. In 2018–19, the range of excess levels for strata insurance products in northern Australia case study areas were in general higher than the rest of Australia case study areas. In northern Australia case study areas, at least 25% of strata insurance products had excess levels set at $1,000 or more, whereas in the rest of Australia case study areas, only 10% of strata insurance products had an excess of $1,000 or more.

Table 3.5: Distribution of excess levels for strata insurance, case study areas in northern Australia and the rest of Australia, 2018–19

<table>
<thead>
<tr>
<th>Excess levels, 2018–19</th>
<th>Lower decile</th>
<th>Lower quartile</th>
<th>Median</th>
<th>Upper quartile</th>
<th>Upper decile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Australia</td>
<td>300</td>
<td>500</td>
<td>500</td>
<td>1,000</td>
<td>1,600</td>
</tr>
<tr>
<td>North Western Australia</td>
<td>500</td>
<td>500</td>
<td>1,000</td>
<td>2,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>500</td>
<td>500</td>
<td>1,000</td>
<td>1,550</td>
<td>1,600</td>
</tr>
<tr>
<td>North Queensland</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>The rest of Australia</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

We note this analysis does not take into consideration special excesses (for example, a specified excess for a named cyclone event) which can be included in a strata insurance policy to negotiate a reduced premium. The maximum special excess observed in northern Australia case study areas was $100,000 in 2017–18 and $52,000 in 2018–19. We observed a maximum excess level of $5,000 in the rest of Australia case study areas. Chapter 16 considers special excesses in strata insurance in greater detail.

### 3.4 Stamp duties and other taxes

The taxes and duties applied to home, contents and strata insurance premiums in Queensland, Western Australia and the Northern Territory over the last 12 years are shown in table 3.6 below. These are not a cost to the insurer, they are an added cost incurred by the consumer. Both are proportional to the premium, so the amount paid is higher in areas where premiums are higher.

A flat rate of 10% GST is applied to all general insurance products across Australia. The stamp duty applied in Western Australia and the Northern Territory has been stable at 10% over the 12 year period considered by the Inquiry. For home, contents and strata insurance, the rate of stamp duty applied in Queensland increased from 7.5% to 9% on 31 July 2013.

Some jurisdictions currently, or have previously, imposed levies on insurers to contribute to the funding of emergency services. Insurers then recover the cost of the levies from their customers, typically with reference to the premium paid. Levies of this kind have not been imposed on insurance products in Western Australia, the Northern Territory and Queensland throughout the period under consideration.

This section generally refers to stamp duties, the GST and levies collectively as ‘tax’ for simplicity.
Table 3.6: Taxes on home, contents and strata insurance in Queensland, Western Australia and the Northern Territory

<table>
<thead>
<tr>
<th></th>
<th>Queensland pre 31 July 2013</th>
<th>Queensland post 31 July 2013</th>
<th>Western Australia</th>
<th>Northern Territory</th>
</tr>
</thead>
<tbody>
<tr>
<td>GST</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Stamp Duty</td>
<td>7.5%</td>
<td>9%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Combined tax rate</td>
<td>18.3%</td>
<td>19.9%</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>Tax as a proportion of retail premium</td>
<td>15.4%</td>
<td>16.6%</td>
<td>17.4%</td>
<td>17.4%</td>
</tr>
</tbody>
</table>

As stamp duties are applied on the GST-inclusive amount of a premium, the effect of these duties is magnified. The taxes imposed on home, contents and strata insurance mean that premiums charged by insurers are magnified by 19.9% in Queensland and by 21% in the Northern Territory and Western Australia.

As shown in figure 3.36, the total Goods and Services Tax (GST) and stamp duty revenue collected from home, contents and strata insurance in northern Australia has increased from $48.5 million to $158.5 million a year over the 12-year period to 2018–19 in real terms, with tax revenue generally split evenly between the GST and stamp duty.

As premiums grow in northern Australia, so too does the dollar value of the amount paid in GST and stamp duty (which is levied on the GST-inclusive premium amount). In real terms, in 2007–08 the average amount of taxes applied to a combined home and contents insurance policy in northern Australia was $204. By 2018–19, insurance customers in northern Australia paid, on average, $413 in taxes on their combined home and contents insurance products: $207 in stamp duty and a further $206 in GST. In the rest of Australia, in 2007–08, the average amount was $240, rising to $256 in 2018–19 (including levies that are imposed in other states). This is shown in figure 3.37 below.
Chapter 3: Insurance prices in northern Australia

Table 3.7 shows the breakdown by region for all home, contents and strata insurance products.

Table 3.7: GST and stamp duty revenue from all home, contents and strata insurance products supplied in northern Australia by region, 2018–19

<table>
<thead>
<tr>
<th>Region</th>
<th>GST</th>
<th>Stamp duty</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Western Australia</td>
<td>$5 million</td>
<td>$5.5 million</td>
<td>$10.6 million</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>$8.6 million</td>
<td>$9.4 million</td>
<td>$18 million</td>
</tr>
<tr>
<td>North Queensland</td>
<td>$65.3 million</td>
<td>$64.6 million</td>
<td>$129.9 million</td>
</tr>
<tr>
<td>Northern Australia (total)</td>
<td>$78.9 million</td>
<td>$79.6 million</td>
<td>$158.5 million</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.
Note: Numbers may not add up because of rounding.

The impact of stamp duties on consumers in northern Australia

The average figures presented above clearly show taxes have a significantly higher dollar impact on consumers in northern Australia than in other parts of the country. As taxes are proportional to premiums, the impact of taxes will vary across northern Australia in line with premium levels, and as noted above and in chapter 9, individuals’ premiums, and the amount they pay in GST and stamp duty, can often be far above the average for their area.

Using premiums as a basis for calculating stamp duties is administratively easy and will in general be an equitable approach to raising revenue. However as shown above and elsewhere in the report, increasing estimates of claims costs and other factors have led to a substantial rise in average insurance premiums in northern Australia since 2007–08. The move by insurers to more granular pricing has meant that these increases have been particularly large for consumers considered to be at a higher risk.

As such, the incidence of stamp duties has increasingly fallen on those consumers in higher risk locations regardless of their income. At the extreme, in 2018–19, consumers in Hamilton Island (the postcode with the highest average premiums for combined home and contents insurance) paid on average $2,542 in GST and stamp duty alone. This compares with the average total premium in the rest of Australia in 2018–19 (including taxes) of $1,402.

Several previous reviews have advocated for the abolishment of stamp duty on insurance contracts. For example, the Review of Australia’s Future Tax System (also known as the ‘Henry Review’) said ‘all
specific taxes on insurance products, including the fire services levy, should be abolished.\textsuperscript{36} The Royal Commission into National Natural Disaster Arrangements, in noting the number of previous inquiries that have recommended the abolishment of taxes on insurance products, said that due to ‘the costs added to insurance premiums by state and territory insurance taxes, and the effect that this can have on affordability and coverage, states and territories should consider the relevant findings and recommendations of previous inquiries [in regards to insurance taxes].’\textsuperscript{37}

State and territory governments have not adopted such recommendations and are reluctant to forego the revenue they derive from these duties.

In October 2015 the ICA commissioned Deloitte Access Economics to write a report on the impact of removing stamp duty from insurance around Australia, and replacing the lost revenue with an increase in municipal land rates. The report found that removing all insurance-based stamp duties across Australia, including the Emergency Services Levy in New South Wales, and replacing them with commensurate increases in municipal land rates, would lead to a net increase in real private consumption across Australia of $5.52 billion, and a net increase in tax revenue collected by state and local governments of 0.69%. These figures relate to a broad range of insurance products, not just home, contents and strata.\textsuperscript{38}

We support the above recommendations to remove stamp duties and reiterate them in recommendation 3.1.

| Recommendation 3.1 |
| Abolish stamp duty on home, contents and strata insurance products |

The governments of Western Australia, the Northern Territory and Queensland should abolish stamp duties on home, contents and strata insurance products. State and territory revenue needs could be more equitably met through other means.

It has been widely acknowledged that stamp duties on insurance products are an inefficient form of taxation. This recommendation is in line with recommendations from previous inquiries into insurance and taxation issues.

Removing stamp duties from insurance products would result in meaningful reductions in insurance premiums for the residents of northern Australia. However, if stamp duties are maintained on insurance products, we also think there would be merit in state and territory governments considering amending the basis for their calculation away from retail premiums, towards some other metric.

The current method for levying stamp duty places a higher tax burden on someone living in a high risk property in northern Australia, compared to someone living in a similar property in other parts of the state or territory. We consider that this unfairly penalises those living in higher risk areas.

A single rate per product (across the state/territory) may address affordability concerns in higher risk parts of northern Australia, but would also increase the incidence on those with lower sums insured in less risky (lower premium) areas.

A better alternative is to instead levy stamp duties with reference to the sum insured of a property, while remaining revenue neutral. This would have the effect of removing much of the effect of the relative risk of a consumer’s property and offer some relief to consumers experiencing very high premiums in northern Australia and other areas.

Higher building costs and more stringent building standards mean that, for a property with certain characteristics, the estimated sum insured will be larger in northern Australia than in most other parts.

\textsuperscript{36} Australia’s future tax system, Final Report, Part 2: Detailed analysis, Chapter E: Enhancing social and market outcomes, 2 May 2010, p. 474.


of the country. Despite this, average sums insured (under combined home and contents insurance products) in northern Australia are comparable to those in the rest of the country. As such, the incidence of stamp duties applied on sum insured values (instead of retail premiums) for residents of northern Australia would on average, be significantly reduced.

Introducing this in a revenue neutral way would result in a transfer of some of the tax burden from those with lower value but higher risk properties to those with higher value but lower risk properties.

For example, taking home insurance products, new stamp duty rates that maintain each state and territory’s stamp duty revenue in 2018–19, we find:

- 78% of northern Australian postcodes (at the aggregate level) would pay less in stamp duty, comprising:
  - 83% of north Queensland postcodes
  - 100% of north Western Australia postcodes
  - 46% of Northern Territory postcodes

- 89% of people with home insurance in the northern Australian case study areas (detailed in chapter 9) would see a decrease in their stamp duty, comprising:
  - 93% of people in the north Queensland case study areas
  - 88% of people in the north Western Australia case study areas
  - 26% of people in the Northern Territory.

For people in the case study areas with home insurance premiums per $1,000 in the upper quartile, there would be an average reduction of $118 in stamp duty, with customers in the north Western Australia case study areas benefiting by $326 on average.

People with premiums in the lower quartile would still receive an average reduction of $13 in stamp duties paid with their home insurance policies.

We find similar results also apply for contents insurance and strata insurance products.

The implementation of this approach will need to consider:

- the impact on consumers throughout the state or territory
- the administrative ease of the approach—we note that sums insured are already incorporated into the premium setting process of insurers at the same time they calculate stamp duty amounts currently
- the impact on future revenue growth from these duties
- the potential impact on the level of underinsurance and non-insurance.

As noted above, there has been a substantial growth in tax revenue from stamp duties in northern Australia over the period. While stamp duties on insurance products remain in place, especially in their current form, governments will continue to receive a significant amount of revenue from areas with higher insurance premiums. We consider that state and territory governments should consider dedicating some of this additional revenue to improving the affordability of insurance in northern Australia. This could take the form of a rebate or other form of assistance for low income earners facing high insurance premiums. It could also be used to help fund mitigation measures that could reduce potential losses across a community (subject to the adoption of recommendation 21.3), or assist residents in overcoming the upfront cost barriers for household level mitigation described in chapter 21.
Recommendation 3.2

Re-base stamp duty; use stamp duty revenue for affordability and mitigation

If stamp duties on insurance are maintained, the governments of Western Australia, the Northern Territory and Queensland should reduce the tax burden on consumers in higher risk areas by levying stamp duties for home, contents and strata insurance with reference to the sum insured value, rather than the premium level.

A portion of revenue from stamp duties on insurance products (however they are levied) should be directed towards measures to improve affordability for low income consumers or to fund mitigation works.

Re-basing stamp duty to be levied on sums insured will make it fairer to consumers living in higher risk areas.

Governments have previously received and continue to enjoy a windfall gain from the growth of insurance premiums in northern Australia. Directing revenue from stamp duties to public mitigation works should only be considered where insurers have provided estimates of premium reductions that would result from such works, and commit to reporting against these where work is undertaken (see recommendation 21.3).

3.5 Summary of insurance prices in northern Australia

The analysis in this chapter confirms that, no matter how measured, the cost of home, contents and strata insurance is higher for those living in northern Australia, and these costs have become higher over time. The issue is most pronounced for Western Australia, but is still significant in north Queensland and the Northern Territory. Affordability of insurance is also a more significant issue for building insurance than contents insurance.

Importantly, for many of the products and regions, there are indications the rate of premium increases is slowing, and in some cases average premiums may even be decreasing. However, this may be in part due to higher-risk properties dropping out of insurance markets altogether in response to high premiums, and may not fully reflect an overall improvement in affordability. Similarly the range of premiums within areas has also increased over time, meaning that some consumers will pay considerably more than the average for their areas, and others less. These trends are considered in more detail in the next chapter.
4. How insurers set premiums

Key points

- Insurers generally set insurance premiums using a three step approach. We observed that there are aspects of each step of the process which are contributing to the high premiums observed in northern Australia.

- First, insurers calculate the technical premium. The technical premium is the expected cost of supplying an insurance product with a margin added for profit and/or return on capital. There are many components of the technical premium, including expected claims costs, reinsurance costs, operating costs, commissions and margins.

- Secondly, insurers make premium adjustments to their technical premium for a range of reasons such as managing their risk exposure and competitive or market positioning. Unlike the technical premium these adjustments are not directly related to the individual risk of the property (the use of premium adjustments and their impact on consumers is considered in chapter 10).

- Thirdly, insurers apply discounts, surcharges, duties and taxes. Stamp duty is levied on insurance premiums as a percentage, so as premiums grow significantly, so too does the dollar value of stamp duty.

- The components of technical premiums vary considerably between insurers. However, it is clear that the main driver of higher technical premiums in northern Australia is the higher natural peril risk. Premium components for cyclone, and in some places flood, make up a large proportion of technical premiums in northern Australia.

- We have seen insurers move to more granular, address level pricing for natural perils including flood and, increasingly, cyclone. As community rating and cross subsidisation across regions has been wound back, this generally resulted in premium increases for consumers in higher risk properties throughout northern Australia.

- Cyclone components are high for many policies in northern Australia, but are particularly large in north Western Australia. In 2018-19, for combined home and contents insurance the average cyclone component for some insurers is estimated to be, between $2,800 and nearly $4,200 per year across north Western Australia, and $6,890 on average in Port Hedland. Cyclone components could also be high in north Queensland. For example, the average cyclone component across a number of insurers in part of Townsville was $630 per year.

- Across all of northern Australia, flood components are smaller in scale on average. However, this is primarily because flood risk is not as widespread as cyclone risk. In high flood risk areas, flood components can be considerable. In one higher risk area 10% of customers pay flood premiums of more than $1,230.

- A number of non-peril premium components, such as margins, reinsurance costs, commission and reinsurance costs, can also contribute to higher technical premiums in northern Australia. Some of these components, such as margins and commission, may be higher as insurers calculate them as a percentage of technical premiums, which are larger in northern Australia.

- We have not seen evidence to suggest that insurers are taking an unreasonable approach to setting the technical premium in northern Australia, or that technical premiums for northern Australia are unjustifiably high.

- There are some indications from insurers that natural peril risk could increase in the future as a result of climate change, but there is little certainty over how it will impact premiums in northern Australia.

- While insurers have sophisticated technical pricing models, it is not always clear how the assessment of technical premiums is used to set the retail premium seen by consumers.
4.1 Overview of premium pricing

Insurers pricing methodologies are complex, and each insurer’s exact approach differs. Generally, however, insurers set premiums in a three step approach.

The insurers first set a technical premium which reflects their estimate of the cost of providing insurance with a margin added for profit and/or return on capital (we refer to this simply as ‘margin’). Technical premiums differ across policies, as each policy will contribute to these overall costs to a different extent. For example, the technical premium for a high flood risk property will be greater than a low flood risk property (all else being equal) as the expected claims costs for the high flood risk property will be greater.

Once the technical premium is calculated, insurers often make ‘premium adjustments’. These adjustments are changes that insurers make in response to other factors not specifically related to the property being insured. Adjustments can be made for a range of reasons, such as competitive or market positioning or to manage their exposure.

The final step is applying discounts, surcharges, taxes and duties, to the adjusted technical premium to arrive at the retail premium. Discounts may be applied for things such as customer loyalty, online purchase and no claims bonuses. Surcharges can be included for things such as monthly payment options. The insurer will then add any relevant levies, taxes and duties to give the final retail premium.

We consider the second step, premium adjustment, in detail in chapter 10. This chapter focuses primarily on the first step of the process, determining the technical premium. It explains how insurers go about setting their technical premiums, and considers the key drivers of higher technical premiums in northern Australia by looking at technical premium components. The chapter concludes by considering the nature and role of discounts and surcharges applied by insurers, including how insurers take into account private (household level) mitigation.

4.2 Insurers’ approach to technical pricing

Insurers generally consider the following cost components when determining a technical premium:

- expected claims costs: these are generally split into working claims and natural peril or catastrophe claims. Working claims are claims that are not caused by a natural peril or catastrophe
- reinsurance costs: these are the costs to the insurer of acquiring reinsurance coverage
- operating costs: these include administrative expenses, marketing costs and claims handling costs
- commission costs: these are payments made to an intermediary, where insurance is purchased through a distributor or broker
- margin: this is the margin added to the technical premium for profit and/or a return on capital. This is usually expressed as a target return on equity across the whole insurance portfolio.

Setting a technical premium is complex, and for expected natural peril claims in particular, involves a great deal of uncertainty. This section discusses how insurers estimate each of the cost components of providing the insurance products. Section 4.3 then considers the scale of these technical premium components and the impact of different types of natural perils on premiums in northern Australia.

Calculating expected claims costs

The following section provides an overview of insurers’ approaches to estimating claims costs. As noted in chapter 5, claims costs are the largest cost to insurers, and therefore they represent the largest part of the technical premium. Calculating the expected claims cost is one of the most complex parts of determining the technical premium, as these costs are uncertain and can be difficult to predict.
To calculate expected claims costs, insurers generally split claims costs into two categories:

- **Working claims**: these are claims that do not relate to natural perils or catastrophes, or other significant weather events. They include claims for things such as fire, theft, glass, and electrical or water damage (excluding from natural peril/catastrophe events).

- **Natural peril or catastrophe claims**: these are claims arising from natural perils, catastrophe events or other significant weather events. They include claims from flood, cyclone, bushfire, earthquake, hail, storm and storm surge. Insurers generally model expected claims for each type of peril separately.

Insurers generally use separate models for the different claims types. While these models differ, they are usually ‘frequency and severity’ models. That is, the models will calculate the frequency (or the likelihood of the claim type occurring) and the severity (the likely cost of a claim when it occurs) of the claim type for a policy. The frequency and severity outputs are then used to calculate the per policy cost for the claim type, which depends on the characteristics of the particular property and its location. The output may also be adjusted (or depend on) other specific product features like the sum insured.

### Catastrophe or natural peril models

The models used by insurers to calculate natural peril or catastrophe claims are generally developed by industry specialists or reinsurers, such as Risk Management Solutions (RMS), Willis, and Finity Consulting, and are supplemented with insurers’ own claims data. Part of the reason for this approach is the complexity of modelling catastrophes and the amount of data required. One insurer stated that it uses external models for catastrophic events, due to the scarcity of internal data for the pricing of severe weather events.

Insurers will also often use a combination of models, or make adjustments to the external models where they consider this is necessary. For example, one insurer adjusted the outputs of an external model used to estimate cyclone claims as a consequence of their testing of the model. The insurer considered that the model did not recognise the impact that the increased demand for building and repair work will have on the cost of services (demand surge), and that it did not fully recognise costs associated with the settlement of a claim (i.e. loss adjuster costs). At least two insurers have adjusted their flood models so that they better take building height, or number of stories into account.

There is also a great deal of uncertainty in estimating expected catastrophe claims costs. A number of insurers commented on the uncertainty, with one insurer describing catastrophe (or natural peril) models as follows:

> ‘Natural peril models are inherently uncertain. Mother nature is difficult to estimate—it is hard enough coming up with a two week weather forecast let along a long term cost of damaging weather... The range of possible values for natural peril models can be large. It is not uncommon to get ranges of estimates from... experts where the highest estimate is double the lowest estimate...this conveys the degree of uncertainty possible in these models.’

### Rating factors

The models used to determine claims costs will take various characteristics of the property and policyholder into account. These characteristics or ‘rating factors’ are factors which have been shown to affect the likelihood of the policyholder making a claim, or the severity of a claim when it occurs.

Rating factors generally include characteristics of the property, the policyholder and the policy coverage. Table 4.1 provides examples of rating factors used by insurers to determine expected claims costs when setting the technical premium. Different factors will be relevant to different types of claims and will also impact model outputs to different extents. We understand though, that for most claims types, the location of the property and the sum insured have the greatest impact on the estimated claims cost.

---

39 We note that insurers generally use either a top down or bottom up approach to determine the claim cost per policy. The top down approach involves an insurer estimating the total average annual loss (AAL) for a particular type of claim, and then allocating the AAL to policies based on their relative risk. The bottom up approach involves calculating the expected claims cost for the policies in a portfolio, and using this to calculate the AAL, and the premium for the policy.
The impact of higher building costs

As noted in chapter 5, and raised by some insurers in submissions, the cost of a claim in northern Australia can be higher than the cost of an otherwise identical claim in other parts of the country. This is due to differences in building (and repair) costs between regions. In more remote areas, and where building standards are higher, these cost differences can be significant. In the event of a major catastrophe, demand surge can further increase claims costs. Insurers factor these higher building costs into their models, and in calculators they provide consumers to estimate their sum insured. Overall, this is one of a number of factors which are contributing to higher premiums in northern Australia.

Expected cyclone claims costs

Insurers model expected cyclone claims cost separately to other claims costs, to calculate the cyclone component of the technical premium for a policy (sometimes referred to as the ‘cyclone premium’). As noted above, cyclone risk is often cited as a reason for higher premiums in northern Australia. Our findings below are consistent with this, and we have seen that the cyclone component of premiums can be high across a large part of northern Australia. This section looks at how insurers model cyclone components, while the scale of these components in northern Australia is considered in section 4.3.

The nature of cyclone risk

Insurers consider much of northern Australia is at high risk from cyclone. For example, one insurer classifies all of north Queensland within approximately 75 km of the coast as being a high cyclone risk area. Another insurer considers that of the 193 postcodes in northern Australia, only 27 were at no, or low, cyclone risk. Similarly, a map of cyclone zone relativities used by an insurer, at figure 4.1 below, shows cyclone risk is high in many coastal areas in northern Australia. This is consistent with historic data weather records and significant claims costs from cyclone events in these areas (as discussed in chapter 5). Figure 4.1 compares the distribution of cyclone risk, with average annual premiums in northern Australia, and shows that the highest premium areas correspond with the highest cyclone risk zones.

---

Table 4.1: Example rating factors used in claims cost models

<table>
<thead>
<tr>
<th>Property characteristics</th>
<th>Policyholder characteristics</th>
<th>Coverage characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum insured</td>
<td>Age</td>
<td>Excess</td>
</tr>
<tr>
<td>Location</td>
<td>Retiree status</td>
<td>Accident damage</td>
</tr>
<tr>
<td>Building type</td>
<td>Claim History</td>
<td>Rent default</td>
</tr>
<tr>
<td>Wall and roof construction</td>
<td>Instalments</td>
<td>Malicious damage</td>
</tr>
<tr>
<td>Number of stories</td>
<td>Tenure</td>
<td>Portable contents</td>
</tr>
<tr>
<td>Stilts</td>
<td>Other products</td>
<td>Special valuables</td>
</tr>
<tr>
<td>Pool</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year of construction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupancy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

40 Decisions about sums insured and the use of calculators are discussed further in chapter 18.
Information obtained from the insurers also suggest that the damage caused by cyclones can sometimes be less severe per property than for other events, such as flood or bushfire, but that it is often more widespread. For example, an internal report from one insurer on historic cyclone claims experience in northern Australia commented that cyclone losses are often characterised by many small claims, and that there can be substantial losses even at low wind speeds as a result.

**Cyclone component modelling**

As for other perils, most insurers use models developed by external parties (or a combination of such models) supplemented with their own data to determine cyclone components. A key development over the past decade has been the increasing sophistication and granularity of cyclone models.

Documents obtained from insurers indicate that rating factors used by cyclone models often include the proximity of the property to the coast, the slope of the surrounding terrain, building construction factors (such as roof and wall material and the age of the building), and sometimes wind shielding due to surrounding buildings and vegetation.

Further, some insurers take mitigation works undertaken on a property into account when considering cyclone risk. Suncorp, Sure Insurance and RACQ, explicitly offer premium discounts to properties where activity has been undertaken to improve the property’s cyclone resilience. Others consider that there is insufficient data to accurately account for consumers’ mitigation activity.

The role of mitigation in lowering insurance premiums is discussed in more detail in chapters 8 and 21. Chapter 21 also considers the ability of insurers’ systems to recognise mitigation measures actually undertaken on a property.

**Address level pricing for cyclone risk**

Currently, a number of the insurers assess cyclone premiums at an address level. That is, they assess each individual property’s cyclone risk, rather than setting premiums for cyclone based on the average risk at a postcode or larger regional level. These insurers are able to make a more accurate assessment of the cyclone risk an individual property faces, because the characteristics of that property and its location are specifically considered. This is important because according to insurers, although cyclone...
risk is ‘smooth in space’ (i.e. the probability of a cyclone occurring is about the same for properties in the same region) the vulnerability of a property is more granular, and depends on local features. For example, the risk of damage from a cyclone is highly correlated with the slope, elevation and building characteristics of a property.

However, insurers have been slower to move to address level pricing for cyclone risks than they have for other risks, such as bushfire and flood. This may partly be due to limitations in modelling, but insurers’ documents also suggest this is because the probability of a cyclone occurring is not address specific to the same extent as bushfire and flood. A number of insurers moved to address level pricing for cyclone risk from around 2013.

In late 2018 another insurer introduced address based pricing for cyclone risk while also making enhancements to its address based flood and bushfire pricing. The price change resulted in premium increases in far north Queensland and the Northern Territory, but did not result in large changes in premiums at a national level. Across these regions, between around 44 and 51% of consumers received the same or lower premiums. However, 20% of consumers in far north Queensland and 15% of consumers in the Northern Territory received increases of more than 10%.

The insurer noted that the address based pricing did see premiums for consumers in lower risk areas fall, stating that ‘average premiums decreased in the Southern areas of QLD (which has a lower cyclone risk), while average premiums increased in Northern QLD along the coast (which has a higher cyclone risk) … average premiums in Darwin and North NT increased significantly while premiums in central NT decreased.’

Insurers’ rationale for the introduction of address level pricing is to more accurately set cyclone premiums. This is seen by the insurers as a way of sending the right price signals to consumers, and of more directly connecting the premium paid to the risk (and therefore to the cost) of providing the insurance. As noted in chapter 7, more accurate, granular pricing is also important to an insurer’s ability to compete against other insurers, and prevent anti-selection. If an insurer is pricing policies at a less granular level, for example across a larger geographic area, it will likely overprice lower risk policies, and under price higher risk policies. This will result in a greater proportion of high risk customers for the same premium.

We have seen a number of comments from insurers about how more granular pricing can improve the risk profile of policies in their portfolios. For example, in 2016 one insurer said in an internal report, ‘Following the [introduction of] enhanced cyclone pricing … the associated pricing strategy continues to reduce the acquisition of properties that are likely to be of sub-optimal construction’. Another insurer said that a move to more granular pricing of cyclone risk aimed to improve risk selection by better aligning pricing to risk. In relation to a pricing review that improved the sophistication of its storm and cyclone modelling another insurer considered that it would improve the mix of business in favour of lower risk customers, stating:

‘It is likely that the premium changes will also result in [our] brands shedding a proportion of the high storm risks as well as new business risks written being skewed towards lower risks…This will come about by higher premiums being charged for higher risks, … and is likely to have the largest impact in high cyclone prone areas.’

While address level pricing does allow insurers to more accurately assess cyclone risk, it has sometimes resulted in very large increases to premiums for some consumers.

One insurer adopted address level pricing for cyclone risks leading to cyclone component changes across their portfolio, which were often significant in size. For example, one consumer’s target premium increased by 70%, from around $3,000 to $5,000. For another consumer, where the cyclone risk level was assessed to be lower, the premium fell by 21% from around $1,900 to $1,500.

Expected flood claims cost

Insurers also separately model flood claims in calculating the technical premium. Flood risk is another factor which has been put forward by stakeholders as a contributor to high premiums in northern Australia.
The nature of flood risk and the scale of flood premiums

Flood risk is more limited than cyclone risk geographically, and while the occurrence and magnitude of floods are unpredictable, the areas which will suffer flood damage when a flood occurs are easier to model. Riverine flood risk depends on factors such as the distance of a property to a river channel, exposure of area upstream of the property to extended precipitation, the geography of the region, and any existing flood mitigation works that would reduce the risk of a property.

There are many parts of northern Australia which are prone to flooding, as illustrated in figure 4.2 below which was prepared by IAG (note there is data missing from a number of regions). However, unlike cyclone risk, flood risk is not limited to northern Australia, and there are higher risk areas across many parts of southern Australia as well.


Flood risk is shown as uniform across regions in the above map, however, the risk of a flood is not uniform in all parts of a specific region, like it is for cyclones. The risk of flood typically varies markedly for properties within the same region, and sometimes even for adjacent properties. Therefore, flood risk generally needs to be considered at a more local level. One insurer’s internal documents provided an example where the flood component of the technical premium within the same suburb could be between $90 and $8,000. This is illustrated in the example flood maps shown in figure 4.3 and figure 4.4.
Figure 4.3: Example flood map for Townsville for 1 in 100 annual recurrence interval, 2013

Source: Document obtained from insurer.

Figure 4.4: Example flood risk map for Bundaberg

Source: Document obtained from insurer.
Note: Red and blue represents high flood risk while green is low risk.

Overall, these maps illustrate the more localised nature of flood risk when compared to cyclone risk, and for many properties in northern Australia the flood component of premiums will be small.

However, there are still many properties in northern Australia that are impacted by flood, and many areas outside of northern Australia are also high flood risk. Looking at the distribution of flood risk across insurers gives an indication about the proportion of properties in Australia (and northern Australia) which are in high flood risk areas, but is also influenced by each insurer’s pricing position and risk appetite (as discussed in more detail in section 4.3 below).

**Flood component modelling**

Like cyclone component modelling, modelling the flood component of premiums has become more sophisticated and granular over time. It appears that for many insurers, a key factor in developing more sophisticated flood pricing were the legislative changes introduced by the Australian Government in 2012.
Flood cover was not widely offered by the insurers prior to 2011. However, following widespread floods in 2010–11, the Australian Government introduced changes to the requirements around flood cover. In 2012, the Insurance Contracts Act 1984 (Cth) was amended to introduce a standard definition for flood, and to introduce a requirement that where an insurer wished to exclude flood cover from an insurance policy it must clearly advise a consumer that flood would not be included. Insurers had until 2014 to introduce these changes.

While it was possible for insurers not to cover flood in home and contents policies following the introduction of these regulations, most decided to include flood coverage as standard in contracts. Most also decided not to provide an option for consumers to opt out of flood cover.

While the exact methodologies for calculating flood premium vary, most of the insurers model flood costs with information from the national flood information database (NFID). The NFID is an industry funded database which combines government flood mapping information into a single database which estimates the depth of flooding (at an address level) for 1 in 20, 1 in 50 and 1 in 100 year floods, as well as probable maximum flood events. All insurers supplement the NFID with models from reinsurers or industry specialists, as well as their own internal data. The coverage and accuracy of the NFID has improved since it was first released in 2009, and is periodically expanded. In 2013, the NFID supplied flood information for about 5.7 million properties. As at 2016 the NFID contained flood risk information for about six million addresses. However, we note in chapter 14 that some insurers have pointed out limitations with the NFID, with particular concerns about accuracy and coverage.

In most cases, insurers now model expected flood costs at an address level. As discussed in further detail below, this has happened progressively across the insurers over the last ten years. However, as there are still areas where address level flood data is not available, some insurers will still use suburb or regional ratings to set flood premiums for these areas.

Unlike cyclone risk, insurers do not seem to promote explicit discounts for flood mitigation works undertaken by individual consumers. However, insurers do take property characteristics that would reduce flood risk into account. One insurer considers that its model takes flood mitigation work into account, for example an expected decrease in claims for raising the floor of a property. Another insurer told us that flood mitigation works are considered on a case-by-case basis, and this is the only peril that this is done for. For this to occur though, the consumer must submit material to support an application for their flood risk to be reduced, which the insurer will assess.

Further, as discussed in more detail in chapter 21, insurers can also take into account community level flood mitigation works, such as levees, by updating the data underlying their flood models.

**Address level pricing for flood risk**

Following the introduction of default flood cover by many insurers, modelling of flood costs became more sophisticated and insurers have moved from rating flood risk at a regional or postcode level, to an address level. This has happened at different stages for different insurers and brands. As with cyclone risk, the impact of these changes varied between consumers.

For example, one insurer introduced riverine flood cover as standard in 2013, with pricing based on risk at the address level. The change increased premiums for only 8.5% of policies. Of these affected policies, the majority saw increases of less than 20%. However for a small proportion of policies the premium increases were dramatic, with about 1.6% of policies increasing in price by over 40% and 0.3% of policies increasing in price by over 100%.

Another insurer introduced new address based flood modelling in 2011–12. This change impacted only a small number of policies (3% across Australia) and 1,800 customers across Queensland. However, the price increases for some consumers were substantial. As a result of the pricing change, the flood component of premiums increased at a national level by an average of $300 for medium flood risk, $1,200 for high flood risk and $3,200 for extreme flood risk.

As for cyclone, the accurate pricing of flood risk at an address level was seen by insurers as important to managing their risk exposure, or ‘policy mix’.
For example, when one insurer moved to address level pricing for flood in 2011–12, the proportion of sales in high flood risk zones began to decline. The insurer commented ‘that risk address flood pricing has been successful in reducing sales in Queensland’. They noted that the number of quotes taken up had decreased significantly in higher flood risk zones, and that sales in high and extreme flood risk areas dropped by 78 and 96% compared to the previous year.

Similarly, in 2012, when another insurer introduced flood risk pricing at the individual property level, it noted that:

> It will be an inevitable outcome that the technical price for properties with a high and extreme risk of flood will not be affordable for those policyholders. Similarly, [we] will aggressively defend [our] risk profile to ensure that it is not being selected against over time. Whilst challenging, these issues will be managed through discrete new business and renewal pricing strategies.

### Expected claims costs of other natural perils

There are a number of other natural perils which insurers separately model to determine the technical premium, such as bushfire, storm, earthquake and tsunami. While these risks will contribute to premiums in northern Australia, they will generally be smaller than flood and cyclone premium components.

Most insurers have developed their storm, hail and earthquake models over the period we have examined and some of them have recently moved to address level pricing for perils other than cyclone or flood. For example, from 2017 one insurer has rated storm at the address level, and considers factors such as location of the property, wind direction, shielding due to topography, vegetation, other houses, tree coverage and the property’s elevation. Another insurer introduced address level pricing for a number of perils (cyclone, earthquake, hail and storm) in 2017.

Insurers have also improved their ability to assess bushfire risk, and many insurers have used address specific pricing from around 2010. Bushfires occur throughout Australia, but the impact that they have on claims costs varies across Australia. Bushfire risk is considered greatest in Victoria, and while parts of Northern Australia may be quite susceptible to bushfires, it does not appear to greatly impact insurance premiums in the area as they generally do not occur in or close to residential areas. Historically, the worst bushfires (in terms of impact on populated areas) have occurred outside of Northern Australia (in Victoria, the Australian Capital Territory and New South Wales). Overall, we consider that insurers are taking a consistent approach and not treating the calculation of the technical premium for flood and cyclone risk (which are a greater component of premiums in northern Australia) differently to the risks more common in the southern parts of the country.

### Expected working claims costs

Working claims are essentially non-peril claims (or non-catastrophe claims), that arise regularly. For example they are claims for things such as fire, theft, water and/or electrical damage and glass cover. Insurers generally model working claims costs separately to catastrophe claims.

Overall, insurers’ methodologies for determining working claims were broadly consistent. For most insurers working claims are determined by using internal claims data and experience, and external models are generally not used. The working claims models determine the frequency and severity for non-peril events taking a range of factors into account.

While the methodologies are broadly similar, the exact methodologies used by insurers to estimate working claims costs differ between insurers. Some will use different models to separately estimate large working claims over a threshold amount (such as $200,000 or $300,000) and small working claims. Each insurer also has different working claims categories that they model.

Generally, working claims are easier to model than peril claims as they are less volatile. However, modelling expected claims costs for these can still be complex. For example, many insurers use numerous models to predict the frequency and size of working claims.
Working claims will vary across the regions, for example, some regions may have greater risk of theft, and therefore have a greater working claims cost component to account for this risk. Higher building costs may also contribute to higher working claims component.

**Calculating other technical premium components**

As noted above, in addition to pricing for claims costs or risk, insurers also set the technical premium to take their other costs into account. Unlike claims costs, there is greater certainty about what the scale of these other costs will be in the coming year, and the main issue for setting premiums to recover these costs is determining how they should be allocated at a policy level.

**Reinsurance costs**

As noted in chapter 5, reinsurance costs are the largest component of premiums after claims costs, and the information obtained during the inquiry suggests that it is a significant factor contributing to higher premiums in northern Australia. For home and contents, and strata insurance, insurers will generally purchase ‘excess of loss’ reinsurance to protect against large and unpredictable catastrophe events.

In calculating the technical premium, insurers take into account the net costs of reinsurance; that is the reinsurance premium less expected reinsurance recoveries (or payments from the reinsurer). The key issue for determining the reinsurance component of a technical premium for a policy is how the net reinsurance costs should be allocated to a policy level.

The way insurers have allocated reinsurance costs to policies differs and has changed over time. Many insurers allocate reinsurance costs to policies based on the amount that the risks covered by those policies will contribute to reinsurance costs. One insurer bases its allocation of reinsurance costs on premiums, risk counts, sum insured and historic losses. A number of other insurers take more detailed approaches, developing models to allocate the cost of reinsurance based on how policies contribute to the reinsurance cost, or allocating based on a range of factors such as business line, location, and even property characteristics. However, it does not appear that all insurers are taking such an approach, and that some have spread reinsurance costs more evenly across policies.

**Operating costs**

Operating costs include things such as administrative expenses, marketing and claims handling costs. Again, these costs are relatively straightforward to predict for an insurer and the key issue is how insurers allocate these costs across policies.

Some insurers allocate most operating costs uniformly across Australia, but other insurers take the characteristics of the policy into account when allocating some types of operating costs. For example, one insurer allocates a larger portion of administrative expenses to new business than to renewals. Claims handling expenses can be allocated based on the probability that a claim will be made under a policy, or the likely complexity and type of claim. Another insurer explained that it allocated claims handling costs based on product, sales channel and percentage of gross written premium.

To the extent that general overhead costs are apportioned by the share of gross written premium and expected claims frequency, consumers in northern Australia can incur a higher share than consumers in the rest of the country. This is likely contributing to higher premiums in northern Australia, but to a smaller degree than other factors. Operating costs (or underwriting expenses), do appear to be higher in northern Australia than the rest of Australia (as discussed in chapter 5) by around $41 per policy.

**Commission costs**

Commission costs for an insurance policy will depend on the way the policy was purchased. Where a policy is purchased directly from an insurer, there will be no commission costs (although the operating costs component may be higher as the insurer will spend more on things such as marketing and sales when selling directly). However, where the insurance is purchased through an insurer intermediary, such as a distributor, authorised representative, or another intermediary who sells insurance on behalf of an insurer, or an insurance broker engaged by a consumer, there will usually be some commission included in the premium paid.
Commission costs are discussed in more detail in chapter 19, but it is worth noting here that the commission rates applied do not appear to vary greatly between northern Australia and the rest of Australia. While commission costs may represent a similar proportion of the overall premium for a product in northern Australia, they will be higher in dollar terms due to higher levels for other cost components.

**Margins**

Once an insurer has determined the scale of the technical premium based on the costs of supplying the product, they will add a margin for profit and/or return on capital to the amount. In the information provided by insurers they generally express margins as a target return on equity across the whole of an insurance portfolio. For home portfolios we have generally found that the target return on equity is between around 10 and 25%, and have generally remained unchanged or have decreased between 2008 and 2017.

A number of insurers have applied the target return on equity uniformly across Australia. While this is applied uniformly to policies, as it is a percentage of premium, policies with a higher premium will make a greater dollar contribution than policies with a lower premium. However, these policies will also require higher levels of capital reserves, given they are higher risk.

The information obtained from insurers does not appear to suggest that they are adding a greater margin (in proportional terms) to the technical premium for northern Australia than they are for the rest of the country. Insurers’ actual profitability is discussed in detail in chapter 6.

### 4.3 Technical premium components in northern Australia

**How we obtained premium component information**

During 2019 we obtained data from insurers on the size of the components of retail premiums, including components of the technical premiums and the different classes of premium adjustments. As part of this we asked insurers to provide a breakdown of their retail premiums into the following technical premium components:

- expected cyclone, storm, flood, bushfire and other natural peril costs
- expected non-peril claims costs (‘working claims’ costs)
- reinsurance costs
- claims handling expenses
- other operating expenses
- commissions
- margin.

We also sought information on premium adjustments; these are discussed in detail in chapter 10.

**Insurer responses**

Insurers each record premium component information in different ways. This meant that some insurers were able to provide detailed breakdowns of retail premiums, while others were more limited.

For example, some insurers were unable to allocate retail premiums to all categories we asked for, while others were unable to split components such as reinsurance costs and margin out from other premium components, such as expected natural peril costs.

We also note that while insurers use the same general approach to setting premiums, their premium components can differ substantially. Expected claims costs for natural perils and working claims will differ because insurers rely on different models and data sets. In addition, insurers’ views on peril costs can vary as there can be a large degree of modelling uncertainty.
Other components of the technical premium, such as operating, commission and reinsurance costs, and margins, also differ. For example, reinsurance components of a premium will depend on an insurer’s reinsurance program and how it allocates reinsurance costs to individual premiums. Commission costs will vary depending on the distribution pathways used by the insurer.

**Our approach to reporting on premium components**

In this chapter, we primarily consider premium component information from the retail premiums data reported by insurers. These premiums components are reported for a subset of postcodes in the case study areas we report on in chapter 9, and we refer to these as the ‘selected case study postcodes’.

A number of insurers do not record premium component data to the level of detail reported here, and some have needed to make estimates or approximations of components in some cases. We have also obtained estimates of premium components across northern Australia and the rest of Australia from some insurers, which we have used to supplement the case study data.

As all premium components were not provided for all policies, average premium components in this chapter are calculated using the number of policies that the component was provided for, and not across all policies from all insurers. Further, some insurers have been unable to separate some premium components from others, so the averages reported here for some components (primarily for certain perils) will incorporate other costs.

Because of these issues, and because insurers make premium adjustments (discussed in chapter 10) and apply discounts, surcharges, taxes and levies, average retail premiums paid by consumers will differ from the sum of average technical premium components.

The following section looks at the components of the technical premiums which are leading to higher insurance prices in northern Australia. It confirms our findings in the first interim report that higher cyclone risk and to some extent higher flood risk are driving higher premiums in northern Australia. However, it also finds that other components, such as reinsurance costs and commissions may also be contributing.

**The scale of technical premium components**

This section provides an overview of the scale of the main components of technical premiums, looking at both selected case study postcodes and the wider northern Australian regions.

**Premium components in selected case study postcodes**

Figure 4.5 below shows the average size of the technical premium components reported by a number of insurers for combined home and contents insurance in 2018–19 in the selected case study postcodes.

---

42 These selected case study postcodes are the following; 6721 (Port Hedland), 0850 (Katherine), 4817 (Townsville), 4455 (Roma), and 2580 (Goulburn).

43 The sum of the average premium components do not add to the total retail premium. For example, the sum of the components in figure 4.5 are much larger than the average retail premiums for Port Hedland. As noted above, there are a number of reasons for this, including that insurers make different types of adjustments and that some insurers have allocated costs to components differently. Another reason for this in Port Hedland is that on average downward premium adjustments that work to lower the retail premium. However, this does not change the relative contributions each of the above components makes to the technical and retail premium.
Figure 4.5: Average technical premium components for combined home and contents insurance in the selected case study postcodes, 2018–19

Source: ACCC analysis of data obtained from insurers.
Note: ‘Natural peril claims’ includes premium components attributed to all natural hazard perils, including cyclone, storm, bushfire and flood. ‘Operating costs’ includes claims handling expense and other operating expenditure. Not all insurers provided data for all components.

The above figure confirms that peril premium components can be high in northern Australia compared with regions outside of northern Australia. In particular Port Hedland and Townsville, which are exposed to cyclone risk, have high average peril premium components of $7,130 and $1,010 respectively. The peril components in Katherine and Roma, which are exposed to flood risk, also have high peril components of $800 and $700 per year. In contrast, the peril component in Goulburn is lower at $480 a year on average.

It also appears that reinsurance and commission cost components are larger in northern Australia. Margins also appear to be slightly higher in northern Australian regions, likely as they are often calculated as a percentage of the other components of technical premium. Each of these premium components, and the proportion of the technical premium they represent, are discussed in more detail below.

In general, trends for contents insurance and home insurance are similar to those shown for combined home and contents insurance above.44

Averages across northern Australia

We obtained estimates of technical premium components in each of the northern Australian regions from three insurers, and estimates for regions outside of northern Australia from two insurers, shown in figure 4.6.

44 However, we note that the relativities between components and regions are not identical.
Figure 4.6: Average technical premium components for two insurer brands’ combined home and contents insurance in northern Australia and the rest of Australia, 2018–19

Source: ACCC analysis of data obtained from two insurers.

Note: As each insurer provided premium components in different ways, there are slight differences in what has been included in the premium component categories shown in the figure. For Insurer 1, operating costs includes claims handling costs, other operating costs and other costs. For Insurer 2 the natural hazard component includes reinsurance costs, claims handling costs, operating costs and the total margin.

A third insurer was also able to provide estimates for technical premium components for all home and contents insurance products in northern Australia in 2019 as shown in figure 4.7.

Figure 4.7: One insurer’s estimates of average technical premium components for all home and contents insurance in northern Australia, 2019

Source: ACCC analysis of data obtained from insurers.

Note: Other components includes operating costs, margins, and non-operation costs (among other items). The figure provided is an estimate of premiums in late 2019. The above covers home insurance, contents insurance and combined home and contents insurance.
Similar to the averages derived from the selected case study postcodes, figures 4.6 and 4.7 show that the average peril component of premiums are generally higher in northern Australia than the rest of Australia. In north Western Australia, for combined home and contents insurance the average natural peril component was between $3,100 and $4,400 per year, or between about 60 and 80% of the total technical premium in 2018–19. They were also estimated to be large for the insurer in figure 4.7 for all home and contents insurance products at nearly $2,700, or 80% of the technical premium in 2018–19. In north Queensland peril components were also large in 2018–19, at between $700 and $1,340 per year for combined home and contents insurance.

Peril components were smaller in the Northern Territory, at between $450 and $880 on average per year for combined home and contents insurance or $715 a year across all Insurer 3’s home and contents products. These were considerably higher than the average for the rest of Australia, which was between $315 and $360 per year for combined home and contents products for Insurer 1 and Insurer 2. As only a limited number of components were provided for the wider northern Australian regions, it is difficult to comment on other premium components.

Figures 4.6 and 4.7 also highlight the variation in premium components across insurers. For example, Insurer 1’s margin and reinsurance costs in northern Australia are much lower than the averages reported by other insurers for Port Hedland or Townsville above in figure 4.5.

The impact of natural perils on premiums in northern Australia

Expected natural perils claims are a key component of technical premiums, and the reason that retail premiums are higher in northern Australia than in the rest of Australia.

This section looks in more detail at how different perils affect premiums in northern Australia.

Cyclone risk is the largest contributor to peril premium components

The scale of the cyclone component of insurance premiums will differ significantly for different policies, and depends on a range of factors such as location and characteristics of the property.

As set out above, the cyclone component of premiums can be high across a large part of northern Australia, as cyclone risk is widespread in the region. Our observations of premium components are consistent with this, and suggest that cyclone risk contributes more to premiums in northern Australia on average than any other natural peril.

Figure 4.8 below shows that for both Port Hedland and Townsville, cyclone made up the majority of the natural peril risk, at around $6,890 and $630 on average per year respectively. The average cyclone component was much smaller in Katherine at $50 per year, which is in a lower cyclone risk area being 250 km inland.
Estimates from two insurers of the peril components across all of northern Australia similarly show that cyclone is the largest contributor to natural hazard premiums, followed by storm and flood, as illustrated in figure 4.9 below.

For both insurers, cyclone premium components in north Western Australia were very large, at between $2,800 and $4,200 per year on average. Cyclone premiums for the Northern Territory and north Queensland were also higher than the rest of Australia, but the size of components varied considerably between insurers. For Insurer 2 the average cyclone premium component in north Queensland was around $1,000, but Insurer 1’s was much lower at only $340 per year. The cyclone premium components in the Northern Territory were the lowest of the northern Australian regions on average, at between $120 and $580.
The difference between the two insurers, particularly for the cyclone premiums in north Queensland and the Northern Territory, could be a result of a number of factors. First, it may in part be because of the different methodologies used by the two insurers to estimate average premium components. Secondly, insurers may assess the risk level of an area differently. For example, Insurer 2 may consider north Queensland to be riskier than Insurer 1. Thirdly, the characteristics of the two insurers’ portfolios may differ, for example if Insurer 2’s customers lived in more exposed locations or had less resilient property characteristics.

Figure 4.9 also shows that the storm peril can, for at least some insurers, be a large contributor to technical premiums, but that this risk is not isolated to northern Australia.

One insurer’s internal documents also showed that for home building products the estimated average claims cost per policy for cyclone was approximately $850 for north Queensland, and $2,500 for north Western Australia. In contrast, the estimated average claims cost per policy was $100 in Brisbane, $190 in the Gold Coast, and $87 in the rest of Western Australia.

**Flood premium components are also high, but affect fewer properties**

The section above highlights that cyclone risk is the largest contributor to average peril premium components. This is largely because cyclone risk affects many properties across northern Australia. In contrast, flood risk affects only a smaller proportion of properties; however for those properties, high risk flood premium components are of a similar scale to high risk cyclone premium components.

As described earlier in this chapter, while flood risk could be high for some properties, it affected fewer properties. Considering risk rating levels used by insurers helps to further illustrate how many properties may be affected by flood and cyclone risk. As noted above, insurers each use different methodologies to rank the risk for different perils. As a result, we have not been able to aggregate risk rating levels across insurers. Instead, in figure 4.10, we show the proportion of policies in each region in northern Australia, and the rest of Australia that fall into a range of risk rating levels used by one insurer as an example.

![Figure 4.10](image-url)
Figure 4.10 supports our previous findings that cyclone risk affects far more properties than flood risk in northern Australia. For example, in north Western Australia, 79% of the insurers combined home and contents policies fell into the two highest cyclone risk rating levels, but there were no policies in the two highest flood levels. Similarly, in north Queensland, 48% of policies fell into the highest two cyclone risk rating levels, but only 2% of policies fell into the highest two flood levels. Finally, in the Northern Territory, cyclone risk is smaller (but still higher than the rest of Australia) with 9% of policies in the highest two risk rating levels.

While this only reflects the risk rating levels of one insurer, we have seen that other insurers also assess that cyclone risk is greater and more widespread than flood risk in northern Australia. For example, we saw for one insurer 74% of its combined home and contents insurance policies in north Queensland fell into its five highest (out of 10) risk rating levels (whereas there were zero policies in these brackets for the rest of Australia), but 90% of policies in the area fell into the lowest flood risk rating level.

Some consumers’ flood premium components can be considerable. Table 4.2 below shows the size of the highest flood and cyclone premium components in a selection of the northern Australian case study postcodes.

Table 4.2: Size of the highest 5% of annual cyclone and flood premium components for combined home and contents insurance in a selection of the case study postcodes, 2018–19

<table>
<thead>
<tr>
<th>Cyclone component ($)</th>
<th>Flood component ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 5%</td>
<td>1,440</td>
</tr>
<tr>
<td>Top 2%</td>
<td>4,450</td>
</tr>
<tr>
<td>Top 1%</td>
<td>7,180</td>
</tr>
<tr>
<td>Maximum</td>
<td>22,350</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.
Note: This data is for the following areas: Port Hedland (6721), Katherine (0850), and Townsville (4817).

The table above again shows that cyclone premium components are generally higher than flood premium components in these case study postcodes. However, it shows that flood premiums can be high for a small selection of consumers. Flood components for the highest 1% of policies in the selected areas were over $2,690, with a maximum flood component of $11,360 a year. We note that in some areas, flood components could be higher than those represented here, and that the above does not take other factors into account which could impact premium components, such as sums insured, excess levels or building characteristics. In other areas, which have greater flood risk than Katherine, Port Hedland and Townsville, flood premium components may be greater.

Quoted premiums for different flood risk properties in Australia also provides an indication of how flood risk can impact retail premiums. Table 4.3 below illustrates that flood risk does affect average premiums, but the impact is not as pronounced as it is for cyclone risk. On average the difference between the highest and lowest flood risk properties was nearly $1,200 per annum in 2017–18. However, these figures are quoted premiums, and do not necessarily reflect what consumers in different cyclone risk areas are actually paying. We also note that some quoted data may be for properties that are also in high cyclone risk areas.
**Table 4.3: Quoted premiums for different flood risk properties, 2017–18**

<table>
<thead>
<tr>
<th>Flood risk</th>
<th>Average Annual Premium ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>2,200</td>
</tr>
<tr>
<td>Medium</td>
<td>2,900</td>
</tr>
<tr>
<td>High</td>
<td>3,000</td>
</tr>
<tr>
<td>Very High</td>
<td>3,400</td>
</tr>
</tbody>
</table>

Source: Quote data provided by Finity Consulting.

Note: This data is based on a sample of quotes obtained from 16 insurers’ websites. Flood risk levels are based on Finity Consulting’s assessment of Flood risk.

**Storm risk**

Premium components for storm risk are generally smaller than flood or cyclone components, most likely because storm events are generally less severe. However, storm risk is relatively widespread and contributes to the overall peril component of many policies to some extent. Table 4.4 below shows the average storm component of premiums for two insurers to illustrate this.

**Table 4.4: Example of insurers’ storm premium for different risk levels in the selected case study postcodes for combined home and contents insurance, 2018–19**

<table>
<thead>
<tr>
<th>Storm risk</th>
<th>Insurer 1</th>
<th>Insurer 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average storm premium component ($)</td>
<td>Percentage of total risks</td>
</tr>
<tr>
<td>1</td>
<td>40</td>
<td>27%</td>
</tr>
<tr>
<td>2</td>
<td>60</td>
<td>51%</td>
</tr>
<tr>
<td>3</td>
<td>110</td>
<td>22%</td>
</tr>
<tr>
<td>4</td>
<td>220</td>
<td>0.1%</td>
</tr>
<tr>
<td>5</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Note: We have grouped risk rating levels provided by insurers into a smaller number of levels. Insurers use more detailed risk rating levels to price insurance products. Risk rating levels differ between insurers, and the flood and cyclone risk rating levels used by Insurers 1 or 2 are not equivalent. Percentages may not add to 100% due to rounding.

Table 4.4 illustrates that storm premium components, are lower than premium components for cyclone and flood risk. It also shows that while the scale of premium components for storm does vary across the selected case study postcodes, there is much less variability than we see for cyclone and flood. This is why, although many regions of Australia, such as Sydney, are prone to storms, the impact of this risk exposure on premiums is less than the impact of exposure to the high cyclone and flood risks common in northern Australia.

Other perils, such as bushfire or earthquake, are a small component of premiums in northern Australia. For example, in 2018–19 for combined home and contents insurance the bushfire component in the selected case study postcodes was $17 a year on average, and other perils (such as storm surge and earthquake) combined were $110 a year on average.

**The range of peril components**

In addition to looking at the average size of peril premium components in northern Australia, we have also considered the range or distribution of these components across the selected case study postcodes.

Figure 4.11 below shows the range of cyclone and flood premiums in the selected case study postcodes.
The above shows that many policies in both Townsville and Port Hedland will have a cyclone premium component that is far above the average for the area. In Port Hedland, 25% of policies have a cyclone component of over $8,830, and for 10% of policies, the figure is more than $12,210 a year. In Townsville, 25% of policies have cyclone components over $820 and 10% over $1,110.

Flood premiums in Katherine can also be considerable, with 10% of policies having flood components over $1,230 a year. Flood premiums in the other regions shown were generally low, with the exception of Townsville where 10% of policies had flood components greater than $450 a year, and Roma, where the top 10% of policies had flood components over $680 a year.

The large ranges presented here are, at least to some extent, a result of insurers’ use of address level pricing in recent years. Different properties within the same postcode can have vastly different risk profiles depending on their location and building characteristics, and this is reflected in the significant ranges for cyclone and flood components set out above. Further, the majority of policies in the selected case study postcodes have small flood components, but a small number are higher (i.e. the distribution is positively skewed). Consistently with the risk rating data, this suggests that most insured properties in the region have low flood risk, but there is a small portion with high flood risk.

How insurers take climate change into account

Generally, insurers recognise that climate change poses a risk to their businesses in their public statements and in internal documents. However, it does not appear that climate change issues have significantly affected their pricing or supply decisions to date.

We have not seen insurers explicitly adjusting their pricing models for climate change effects but, they do still take the effects of climate change into account. This is because insurers’ models rely on historic data, which means that to the extent that climate change has affected past weather patterns, it will implicitly be included in insurers’ prices. A number of insurers noted that because they consider historic weather and claims data, in forecasting claims costs and setting premiums, the impact of climate change to date is incorporated into their premiums to some extent. Two insurers also stated that climate change risk and their associated cost allowances will be incrementally incorporated into premiums as customers renew their premiums.

Another of the insurers appears to consider that granular pricing has helped it to take climate change risk into account in pricing. The insurer noted in an internal document that it has modified ‘pricing ... on
key climate associated risks of flood, cyclone ... at the individual building address level’ to ensure that ‘climate change impacts have been considered throughout the business’ and ‘specifically addressed in pricing and risk selection decisioning at the product level’.

However, we have seen indications that insurers are taking steps to better model the future effects of climate change. For example, in 2019, one insurer noted in its climate change action plan scorecard that it is aiming to ‘demonstrate how we have factored climate risk into product pricing’ in financial year 2019 and ‘integrate and embed climate risk analysis into portfolio assessment process’ in financial year 2020.

Further, a staff member at another insurer noted in internal emails that the insurer is ‘quite keen on incorporating climate change into their insurance products but are needing some guidance as to how it could be operationalized in a logical [and] reasonable’ manner. The insurer considered that its goal for the financial year 2019 was to consider ‘climate change and inundation risk changes’ as part of its ‘ongoing investment ... [into] natural peril rating capability.’

There are also indications that insurance premiums have the potential to change in the future as a result of climate change.

In late 2018, one insurer conducted modelling which suggested that the cyclone risk component of its technical premium in Queensland and north east New South Wales were approximately half of what was required. It noted that as a result of climate change, cyclone risk premiums were likely to increase in north eastern New South Wales and south eastern Queensland. However, it also noted that warming to date has likely already significantly increased the risk of cyclones and will continue to do so with further warming. It noted that as a result, changes to cyclone premium components in Queensland ‘should only be viewed as an interim position that most likely does not represent today’s changed climate’.

Similarly, another insurer has commented in a board paper that ‘in the medium to long term, persistent increases in pricing in response to climate related factors may result in affordability issues for some market segments.’ Another insurer indicated to the ACCC that there will be increased costs relating to cyclone, storm and flood as a result of climate change effects, although it also considered that it would ‘take many years for the impact to become obvious.’ Another of the insurers also indicated that over the longer term, the technical price of insurance will increase beyond mass-market affordable levels.

**Other components of the technical premium**

**Non-peril costs are higher in northern Australia**

As we have noted above, while peril components make up the largest portion of the technical premium, other non-peril components also appear to be larger in northern Australia than other parts of Australia. In particular, they can be much higher in north Western Australia. This is illustrated by figure 4.12 below.
The working claims component of technical premiums are highest in Port Hedland, at $970 on average per year. One possible reason is that Port Hedland is more remote than the other regions, and therefore it is likely that it is more expensive to service claims, particularly for home insurance. Working claims in Katherine, which is also a more remote region, are also high at $810 a year. We see a similar trend for contents insurance, where working claims components are also on average higher in Port Hedland and Katherine.45

For combined home and contents insurance, the reinsurance components of the technical premium are higher across the selected case study postcodes in northern Australia than those outside of northern Australia. Reinsurance components are much higher in Port Hedland than any other region at around $1,550 per year on average, followed by Townsville at $240 and then Katherine at $210. In the areas outside northern Australia, reinsurance components are lower at around only $40 per year. We note that not all insurers allocate reinsurance in the same way, and that a number of the insurers have not separated reinsurance components from natural peril components. However, for the insurers that do split out the reinsurance component, they appear to correlate with natural peril components.

Finally, as expected, commission costs are higher in regions with higher average retail premiums. The highest commission components are seen in Port Hedland at $1,830 per year on average, followed by Katherine at $530 and Townsville at $510. Commission components outside of northern Australia are lower at between $230 and $260. These figures show that commissions can be a sizeable component of the technical premium.

Margins as a component of technical premiums

Insurers incorporate margins into their technical premiums. This includes an amount for a return on capital and a target profit amount. We refer to these collectively as ‘margins’. Margins are generally expressed as a target profit and/or return on equity across the whole of the portfolio. Insurers have indicated this will generally be applied as a percentage rather than a specific dollar amount. The margin component may also be set with reference to the amount of prudential capital required to support the policy being provided, and this will vary with the risk profile of the policy. As such, the margin component tends to be higher in dollar terms where other technical premium components (including for perils) are higher.

---

45 The average working claims component of premiums in the selected case study areas for contents insurance in 2018–19 are as follows: Port Hedland—$300 per year, Katherine—$220 per year, Townsville—$160 per year, Roma—$180 per year, Goulburn—$130 per year.
Consistent with this, reported margins are larger in selected northern Australia case study postcodes than those in the rest of Australia. Table 4.5 shows the average margin component in each region for two insurers, and the percentage the margin component is of the rest of the technical premium.46

Table 4.5: Average margin component of technical premiums for combined home and contents insurance for a selection of insurers in the selected case study postcodes, 2018–19

<table>
<thead>
<tr>
<th></th>
<th>Insurer 1</th>
<th>Insurer 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Margin ($)</td>
<td>Margin as a percentage of all other components technical premium</td>
<td>Margin ($)</td>
</tr>
<tr>
<td>Port Hedland</td>
<td>NA</td>
<td>719</td>
</tr>
<tr>
<td>Katherine</td>
<td>124</td>
<td>58</td>
</tr>
<tr>
<td>Townsville</td>
<td>131</td>
<td>69</td>
</tr>
<tr>
<td>Roma</td>
<td>85</td>
<td>39</td>
</tr>
<tr>
<td>Goulburn</td>
<td>90</td>
<td>47</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.
Note: The high margin components and technical premiums do not equate to the retail premiums faced by consumers.
As noted in chapter 10, insurers can apply downwards premium adjustments (in particular market adjustments and capping) which work to reduce the retail premium below the technical premium level.

The table above shows that the selected insurers set margins fairly consistently across the case study regions and confirms our finding in section 4.2 that a number of insurers applied a target return on equity uniformly across policies. It also shows that because of this margins can be greater in total dollar terms for policies with higher technical premiums.

Complexity of insurer pricing engines

A number of insurers indicated that the complexity of their pricing systems means that it is difficult to identify the components of the technical premium, either at an average level across regions, or for individual consumers.

We have also seen evidence in insurers’ documents which suggests that it is not always clear within insurers how the assessment of technical premiums is used to calculate retail premiums, as seen in the following example.

Box 4.1: Uncertainty around retail premium calculation

In late 2018, an internal document from one insurer described issues with its pricing processes as follows:

‘There is a lack of transparency as to how technical peril rates influence the final customer premiums. As part of a recent project, the [internal business unit] has tried to map out much of this pricing process. This mapping shows a complex path of data and assumptions across many sets of hands in CFO and [internal business units]. There is sometimes confusion around the data being transferred between [internal business units] and some areas of the business have not used the best available peril rates.

So, while changes to cyclone technical rates have been proposed, there is no guarantee that these rates will work their way into final customer premiums until these structural and potentially efficiency issues are resolved.’

In other documents the insurer described its pricing process as follows, ‘The current pricing process is complex, involves many touchpoints/hand-offs across teams and has high degree of variation in how we manage pricing for the same risk across brands’.

To address these issues the insurer began a process to improve and simplify its pricing processes, which involved improving processes and governance, and simplifying its pricing systems.

46 Note that not all insurers provided a separate margin component.
These issues suggest that while insurers may expend considerable resources on assessing technical premiums which accurately reflect the risk of their portfolio or the particular risk, it is not clear that these are always reflected in the retail premium that the customer sees.

4.4 Overall view of insurers’ technical pricing

From the information obtained during the inquiry, it does not appear that insurers are unreasonably inflating technical premiums in northern Australia. Instead, it appears that insurers are attempting to set technical premiums in a way which, in their view, accurately reflects the risks they are insuring, and thereby the cost to supply insurance in northern Australia. AGA also reviewed insurers pricing methodologies and did not find evidence to suggest that the insurers’ approaches to setting the technical premium are unreasonable.

Insurers’ ability to set premiums that take into account the risk of providing insurance is important to their ability to compete, as it helps to ensure that the insurer maintains the right ‘mix of risks’. That is, accurate pricing is important so that premiums are not set too high such that an insurer loses business to more accurately priced competitors, or too low, exposing the insurer to ‘anti-selection’. Therefore, once one insurer has moved to a more granular pricing model, its competitors will be incentivised to follow, to avoid attracting the higher risk customers that the first insurer now prices at a higher level. Similarly, if an insurer is overpriced (compared with its competitors) for relatively low risk customers, it will lose a portion of these from its portfolio, and its overall risk profile will increase.

One insurer has said in internal documents:

[O]granular pricing is the natural state in free and competitive markets—The free market system in which most insurers operate exhibits an ever-present movement towards very granular risk-based pricing. We consider this to be a natural steady state... any move away from granular risk pricing is pushing against the natural tendency of the market.

We understand the importance of more granular risk ratings for insurers. However, the move to a more granular approach to modelling and pricing for catastrophe risk has meant that some groups of consumers in northern Australia and elsewhere now face considerably higher premiums.

One insurer noted the following negative aspects of granular pricing, ‘High-risk individuals are asked to pay high prices, which may have undesirable consequences. At the extreme, this can create social challenges such as economic hardship or effective economic exclusion from insurance.’

We have seen this in northern Australia where address based pricing has resulted in community rating and cross subsidisation across regions being wound back, and higher risk consumers experiencing significant premium increases.

Overall, we consider that insurers’ approaches to setting technical premiums do not appear to be unreasonable, and that over the period insurers have adjusted their approach to setting technical premiums to make more accurate estimates of the cost of providing the policy.

4.5 Premium adjustments

As noted above, once insurers determine the technical price they will often make further ‘premium adjustments’ to this, but these adjustments are not directly related to the individual risk of the property. Premium adjustments are made in response to factors such as the insurer’s aggregate concentration of risks and market position. These adjustments are also distinct from any explicit discounts or surcharges which may be applied to a premium (these are considered at section 4.6) because they are not transparent to consumers.

These adjustments are common across the insurers and it appears that such adjustments are made to many policies. One insurer told us that these types of variations were made for around 80% of policies,

47 Anti-selection occurs where an insurer retains less profitable, higher risk customers, and loses its more profitable, lower risk customers.
and on average these adjustments led to a 20% difference between the technical premium and the premium paid by consumers.

While these adjustments are often reasonable commercial decisions, they can lead to issues for some groups of consumers. The reasons for, and the effect of, various categories of premium adjustment are discussed in detail in chapter 10.

4.6 Discounts, surcharges, taxes and duties

Once the above technical premium is determined and premium adjustments are applied, insurers apply any discounts or surcharges they have determined, as well as taxes, duties or levies imposed by governments. The following section looks at the discounts and surcharges applied at the discretion of insurers with a particular focus on how discounts are applied to recognise household level mitigation.

Taxes and duties applying to insurance include the GST and state and territory stamp duties and (in some jurisdictions) other levies. The impact of GST and stamp duties on premiums in northern Australia is considered in detail in chapter 3.

Discounts and surcharges

There are a range of final discounts and surcharges that insurers can apply to determine the final retail premium.

Discounts can be given for the following:

- being a new customer
- being a longstanding customer (‘loyalty discounts’)
- not making a claim over a specified period (‘no claims bonus’)
- bundling insurance products from the same insurer
- purchasing the product online.

Insurers typically offer the same types of discounts, however the size of the discount varies. Discounts are often conditional on one or more criteria being met and may not be available to customers in all areas. Table 4.6 below provides an overview of the discounts offered by insurers in northern Australia in 2017-18.
### Table 4.6: Discounts for key insurer brands, 2017–18

<table>
<thead>
<tr>
<th>Brand</th>
<th>Being a new customer</th>
<th>Being a longstanding customer (‘loyalty discount’)</th>
<th>‘No claim bonus’</th>
<th>Bundling home and contents into one product</th>
<th>Bundling with some other insurance product</th>
<th>Bundling with a home loan</th>
<th>Purchasing online</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAMI</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10%</td>
<td>5% (first year)</td>
<td>-</td>
<td>$25 (single product)</td>
</tr>
<tr>
<td>Allianz</td>
<td>0–13.5%</td>
<td>0–8.5%</td>
<td>10–30%</td>
<td>10%</td>
<td>-</td>
<td>-</td>
<td>10%</td>
</tr>
<tr>
<td>ANZ</td>
<td>-</td>
<td>-</td>
<td>2.5–25%</td>
<td>10%</td>
<td>7.5–12.5%</td>
<td>10%</td>
<td>-</td>
</tr>
<tr>
<td>APIA</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10%</td>
<td>10%</td>
<td>-</td>
<td>15%</td>
</tr>
<tr>
<td>Comminsure</td>
<td>0–15%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0–15%</td>
<td>0–15%</td>
<td>-</td>
</tr>
<tr>
<td>NRMA</td>
<td>-</td>
<td>5–15%</td>
<td>5–25%</td>
<td>2.5–15%</td>
<td>2.5–15%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>QBE</td>
<td>-</td>
<td>1-7.5%</td>
<td>2.5–25%</td>
<td>$21</td>
<td>10%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>RACQ</td>
<td>-</td>
<td>2.5–17.5%</td>
<td>0–6%</td>
<td>0–13%</td>
<td>5%</td>
<td>15%</td>
<td>$75</td>
</tr>
<tr>
<td>Suncorp</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>15% (min. of 3 products)</td>
<td>0–20%</td>
<td>-</td>
<td>$50 (single product)</td>
</tr>
<tr>
<td>Westpac</td>
<td>5–15%</td>
<td>-</td>
<td>5–15%</td>
<td>10%</td>
<td>-</td>
<td>10%</td>
<td>17.2%</td>
</tr>
<tr>
<td>Youi</td>
<td>-</td>
<td>-</td>
<td>0–20%</td>
<td>-</td>
<td>20% (contents)</td>
<td>-</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Information obtained from Insurers.

These discounts can be offered to encourage or recognise actions that lower costs for the insurer. This may be in the form of lower administrative costs (for example bundling or online discounts), claims and claims handling costs (for no claims bonuses). They are also used to attract and retain customers (new customer and bundling discounts).

The use of discounts for competitive purposes is considered further in chapter 7.

Some insurers may also offer discounts where consumers have undertaken mitigation works on their property—these are considered in detail in chapter 21.

Insurers can also apply surcharges on premiums. Some, but not all insurers, will include a premium surcharge for consumers who pay by the month. These surcharges are discussed in chapter 15.

---

48 Depending on product and location.
49 Also subject to capping and collaring.
50 Depending on the length of the relationship with NRMA. This is a subset of the ‘bundling with some other insurance product’ offer.
51 Depending on number of policies and length of relationship with NRMA. Can be combined with the loyalty discount for a maximum reduction across the two discounts of 25%.
52 Also subject to capping and collaring.
53 A discount of 100% was also offered for a limited time only.
54 Home and contents count as two policies for determining the multi-policy discount.
55 Not an explicit discount, range calculated based off comparing premiums for the same policy with and without claims.
5. The costs of providing insurance

Key points

- Northern Australia represents 12% of national gross claims expense for all home and contents insurance since 2007–08, despite only representing 5% of the policies.
- Insurer costs are higher in northern Australia, primarily due to the frequency and severity of catastrophe claims experienced, and the higher associated allocation of reinsurance costs.
- The primary driver of the high variability in overall gross claims expense in northern Australia is natural catastrophes. Natural catastrophes have a higher impact on gross claims expense for home and combined home and contents insurance products due to the potential for widespread significant damage to buildings, with losses up to and including the full sum insured value.
- When you set aside the cost of natural catastrophes, on a real per product basis, gross claims expenses have remained relatively steady across Australia, with no noticeable difference between northern Australia and the rest of Australia.
- On average, claims are more frequent and larger in northern Australia compared to the rest of the country, although there is considerable variation from year to year. Higher average claims amounts are partly attributable to the higher average excess levels in northern Australia, which reduce the incidence of low value claims.
- Strata claims in northern Australia are on average three times larger than those made in the rest of Australia. The average claim size for strata policies in northern Australia from 2007–08 to 2018–19 was $16,300, the corresponding figure for the rest of Australia was just $3,600.
- Insurers increased their expenditure on reinsurance following large claims in 2010–11. This is a consequence of reinsurance rates increasing in response to large global losses that year. Since then, reinsurance expenditure has remained steady.
- On a per product basis, underwriting costs are higher in northern Australia than the rest of Australia. Underwriting costs per product are currently decreasing across Australia.
- Commission costs for all home, contents and strata products in northern Australia have quadrupled since 2007–08, however growth has slowed since 2012–13. About half that growth can be attributed to increased number of policies where commission costs are payable (sold through an insurance broker or insurer intermediary), and the other half to higher commissions being paid on higher premiums.

This chapter outlines the key cost categories for insurers supplying home, contents and strata insurance products. We examine the relative size of these costs in northern Australia and how these have changed over the past year. We also breakdown gross claims expense and examine what claims causes are most common in northern Australia.

5.1 Categories of insurer costs

The costs insurers incur in supplying insurance products can be divided into the following categories:

- **Claims costs**—This includes costs such as the claims incurred and the cost of handling and assessing claims. These costs tend to vary with the number of policies written and the relative risk to the property insured. ‘Gross claims expense’ and ‘net claims expense’ are a commonly used measure of claims costs. Gross claims expense includes all costs incurred in responding to claims, without taking into account reinsurance and non-reinsurance recoveries. The difference between gross claims expense and ‘net claims expense’ is the amount of reinsurance and non-reinsurance recoveries. Gross claims expense is a measure of the total claims made, net claims expense is a measure of how expensive the claims were for the insurer.
Reinsurance costs—This includes the cost of premiums paid to reinsurers. These costs tend to vary with the type of reinsurance purchased, the number of policies written, the sum insured under the policies written, and the relative risk of the properties insured.

Underwriting costs—This includes levies, charges, and acquisition costs which are incurred in obtaining and recording insurance contracts. They include selling and underwriting costs such as advertising and risk assessment, the administrative costs of recording policy information and premium collection costs. This is determined in accordance with AASB 1023. Commission costs are usually considered an underwriting cost, but for the purpose of this report we have separately identified these below. Underwriting costs tend to vary with the number of policies written.

Commission costs—This includes the costs of commission or brokerage paid to an intermediary for obtaining business for the insurer. These costs tend to vary with the number of policies written and in proportion to gross written premium.

The relative size of cost categories

Figure 5.1 below shows the proportion each expenditure category contributed to total insurer costs over the five years to 2018–19. Net claims expense was the largest cost category in all regions except north Western Australia where reinsurance expense was the largest. This is indicative of the high level of reinsurance insurers utilise in the region. Underwriting expense and commission expense are proportionally larger in the Northern Territory and north Western Australia because of the overall low number of policies there and moderate claims experience. Underwriting and commissions expenses in north Queensland are the smallest of the four regions because of the high claims expense throughout this period, not necessarily because the average underwriting and commission expenses are lower. Note that these ratios can vary considerably from year to year depending on the claims experience.

![Figure 5.1: Proportion of expenditure related to each cost type for all home, contents and strata products, by region, 2014–15 to 2018–19, real $2018–19](image)

Source: ACCC analysis of data obtained from insurers.

Figure 5.2 below shows the change in expenditure for all products across northern Australia since 2007–08. Reinsurance expense, commission expense, and underwriting expense all rose gradually until 2012–13 and have held relatively steady since then. The majority of the fluctuations are due to the large changes from year to year in the net claims expense. This indicates that reinsurance is not fully offsetting the large costs of natural catastrophes in these years and that insurer costs are highly variable.
Figure 5.2: Expenditure related to each cost type for all northern Australian home, contents and strata products, by year, 2007–08 to 2018-19, real $2018–19

![Graph showing expenditure related to each cost type for all northern Australian home, contents and strata products, by year, 2007–08 to 2018-19, real $2018–19.]

Total expenditure ($ million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>200</td>
<td>400</td>
<td>600</td>
<td>800</td>
<td>1,000</td>
<td>1,200</td>
<td>1,400</td>
<td>1,600</td>
<td>1,800</td>
<td>2,000</td>
<td>2,200</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Figure 5.3 below shows the cost breakdown per policy for combined home and contents products in 2018–19. It shows that even though north Western Australia had a relatively mild claims experience in 2018–19, it had the highest insurer costs. This was largely because of its comparatively high level of reinsurance expenditure.

North Queensland had the highest net claims expense at $1,571 per policy, however its gross claims expense was $2,962 per policy. This indicates that insurers recovered $1,391 per combined home and contents policy from reinsurance and non-reinsurance recoveries in north Queensland in 2018-19.

Figure 5.3: Breakdown of expenditure per policy related to each cost type for combined home and contents products, 2018-19

![Bar chart showing breakdown of expenditure per policy related to each cost type for combined home and contents products, 2018-19.]

Expense per policy ($)

North Queensland: 2,500
Northern Territory: 1,500
North Western Australia: 2,000
Rest of Australia: 1,000

Source: ACCC analysis of data obtained from insurers.

These cost categories are considered in further detail below.
5.2 Gross claims expense for all home and contents products

Gross claims expense includes all costs incurred in responding to claims, without taking into account reinsurance and non-reinsurance recoveries. Reinsurance costs and recoveries are considered in section 5.6.

Gross claims expense in northern Australia differs considerably from year to year; home insurance and combined home and contents insurance products are extremely volatile, while contents insurance is more consistent. Figure 5.4 shows the gross claims expense for each product across northern Australia.

**Figure 5.4: Northern Australian gross claims expense, 2007–08 to 2018–19, real $2018–19**

The primary driver of the high variability in overall gross claims expense in northern Australia is natural catastrophes. Natural catastrophes have a higher impact on gross claims expense for home and combined home and contents insurance products due to the potential for widespread significant damage to buildings, with losses up to and including the full sum insured value. The maximum size of a loss for contents insurance is limited by the overall lower level of sum insured for contents policies.

Gross claims expense for all home and contents products in northern Australia over the 12 years from 2007–08 to 2018–19 amounted to $5 billion, although this proportion varied considerably from year to year. Northern Australia represented 12% of the national total over this period, despite having only 5% of the policies.

In 2010–11, northern Australia made up 24% of national gross claims expenses (compared to 7% of gross written premium), but this fell as low as 4% in 2015–16 (compared to 10% of gross written premium). This variability in gross claims expense is shown in figure 5.5 below.

---

56 Gross written premium excludes GST, levies and stamp duty.
Size of claims

On average, the size of individual claims in northern Australia is generally higher than in the rest of Australia. For example, the overall average cost of all claims under home and/or contents products in north Queensland over the twelve year period from 2007–08 to 2018–19 was $7,354, in the north of Western Australia it was $6,078 and in the Northern Territory it was $3,784. In the rest of Australia the average claim size was $4,569.

The Northern Territory consistently had one of the smallest average claim sizes for each product type, with high claims in 2017–18 raising the overall Northern Territory average considerably. This can be compared to average claims sizes in north Queensland and north Western Australia which are extremely volatile from year to year due to the impact of natural catastrophes. The average size of a claim over the last 12 years is shown in figure 5.6 below.
The overall increasing trend in average claim size across Australia over time can partly be attributed to a steady increase in the average excess levels (described in chapter 3), which reduces the incidence of low value claims.

The relatively higher cost of claims in northern Australia can also be explained in part with reference to the higher building and repair costs compared to most other parts of Australia. These higher building costs are partly due to challenges in the supply of materials and labour in northern Australia and partly due to the more stringent building standards imposed in cyclone risk regions. Chapter 13 discusses building costs and regulations further.

**Gross claims expense per product**

On average, the gross claims expense per home and/or contents insurance product has moved within the range of $200 and $600 across Australia with no general upward or downward trend. This is clearest in the rest of Australia, but is also apparent in northern Australia when years with high natural catastrophe claims are excluded.

In northern Australia, the gross claims expense per product is highly volatile due to catastrophe events. North Queensland and north Western Australia have the widest range in average gross claims expense per product. North Western Australia’s average in 2014–15 was almost quadruple their overall average due to Cyclone Olwyn’s impact and the average being relatively easy to shift due to the overall low number of policies in the region. North Queensland was the most volatile with the average gross claims expense exceeding $1,000 in five separate years, corresponding with the Mackay floods (2007–08), Cyclones Yasi and Tasha (2010–11), Cyclone Oswald (2012–13), Cyclone Marcia (2014–15), Cyclone Debbie (2016–17), and the Townsville floods (2019).

The Northern Territory has one of the lowest average gross claims expense per product most years, with 2017–18 being the main outlier with an average of over $880 more than the previous year. This increase can be attributed to Cyclone Marcus. These trends for all home and contents insurance products are shown in figure 5.7 below.

**Figure 5.7:** Average gross claims expense per product, all home and contents products, 2007–08 to 2018–19, real $2018–19

Source: ACCC analysis of data supplied by insurers.
Frequency of claims

On average, the proportion of all home and/or contents insurance products making a claim each year is notably higher in northern Australia (at 12%) compared to the rest of Australia (9%) over the twelve year period. The claims frequency in northern Australia is also more volatile than the rest of Australia. The year 2010–11 is again an outlier with a claims frequency of 24% across all home and/or contents insurance products.

When considering the northern Australian subregions, the Northern Territory had the most stable claims frequency, although this was still more volatile than the rest of Australia. All three regions had one year that was over 50% higher than their average frequency. These years correspond to the years with a cyclone or flood impacting a population centre in the region. North Western Australia is the only region to have a consistently lower claims frequency than the rest of Australia, excluding the catastrophe year of 2014–15. The claims frequency for regional and metropolitan areas of the rest of Australia was almost identical most years, with no major deviations. The increasing trend in excess is reducing the number of small claims being made, and reducing the overall claims frequency, a similar effect to that observed for the average claim size. Figure 5.8 below shows these trends in claims frequency for all home and contents products over time.

![Average claim frequency all home and contents products, 2007–08 to 2018–19](image)

Source: ACCC analysis of data supplied by insurers.

5.3 Gross claims expense for strata products

Gross claims expense for strata products in northern Australia over the 12 years from 2007–08 to 2018–19 amounted to $272 million, 10% of the national total, (compared to 3% of policies being in northern Australia). Like home and contents insurance, gross claims expense for strata insurance varied considerably from year to year. For example, in 2015–16, northern Australia made up just 2% of national gross claims expenses (compared to 8% of gross written premium), but this rose as high as 25% in 2016–17 (compared to 9% of gross written premium). The gross claims expense for strata insurance in northern Australia and the rest of Australia is illustrated in figure 5.9 below.
Figure 5.9: Gross claims expense for strata products, 2007–08 to 2018–19, real $2018–19

![Gross claims expense graph](image)

Source: ACCC analysis of data supplied by insurers.

Similar to home and contents products, the gross claims expense of strata products is largely driven by natural catastrophes, with the largest contribution coming from the Mackay floods in 2007–08, Cyclone Yasi in 2010–11, Cyclone Debbie in 2016–17 and the Townsville floods in 2018–19. The impact of Cyclone Marcia in 2014–15 is also visible in figure 5.9 above, however the impact of Cyclone Oswald in 2012–13 is not apparent.

Size of claims

The average claim size for strata policies in northern Australia from 2007–08 to 2018–19 was $16,300, the corresponding figure for the rest of Australia was just $3,600. There has been a steady increase in the average claim size across Australia, this is most apparent in the rest of Australia where the data is not as affected by catastrophe claims. The average claim size in the rest of Australia has increased gradually from $2,200 in 2007–08 to over $6,000 in 2018–19. Similarly to home and contents products, this increase in the average claim size can partly be attributed to a steady increase in the average excess levels across Australia, reducing the incidence of low value claims, as described in chapter 3.

Figure 5.10 below shows how the average claim size has changed over time.
The spikes in figure 5.10 correspond to years that each region suffered a catastrophe event. The very high average claim size in north Western Australia in 2014–15 can be attributed to a small number of very large claims associated with Cyclone Olwyn against a very low number of policies. As shown in the following section, the claims frequency in north Western Australia was not unusually high that year.

**Frequency of claims**

The average claims frequency in northern Australia over the period from 2007–08 to 2018–19 is 24%, this is considerably less than the average of the rest of Australia of 35%. When considering the northern Australian subregions, the Northern Territory had the highest average claims frequency at 38%, considerably higher than north Queensland’s 22% and almost double north Western Australia’s 21%.

Figure 5.11 shows how claims frequency for strata products has changed across Australia.
Similarly to the average claim size, the steady decrease in claims frequency in the rest of Australia and north Queensland (when excluding the catastrophe year of 2010–11) can be partly attributed to the noticeable increase in the excess levels of strata policies across Australia. As the excess has increased, smaller incidents are no longer resulting in a claim being made and the overall claims frequency is dropping. In the Northern Territory and north Western Australia, this effect is not evident. The role of excesses in strata insurance, and the challenges facing strata properties more generally, are considered in detail in chapter 16.

5.4 Claims forecasting

Chapter 4 sets out the approach insurers take to forecasting their claims costs for pricing purposes, and the challenges in doing so given the nature of natural catastrophes.

Insurers were asked to provide their forecasts for net claims expense made each year going back to 2007–08. Not all insurers were able to provide their forecasts on a product by product basis and instead, provided forecasts across their home, contents and strata portfolio. This section will consider data dating back to 2009–10 as that is as far back as we were able to obtain mostly complete data.

In real terms, across the industry, expected net claims expense (that is, net of recoveries from reinsurance) for all home, contents and strata products across Australia had been forecast to grow by an average of 8% each year since 2009–10. In 2018–19, the eight insurers have modelled total expected net claims expenses for all home and contents and strata insurance products to be around $3.9 billion. Figure 5.12 also shows that around 34% of all of Australia expected net claims expense is attributed to natural catastrophes each year.

Figure 5.12: Expected net claims expense for all home, contents and strata insurance products across Australia, 2009–10 to 2018–19, real $2018–19

Since 2009–10, the forecasts for non-catastrophe net claims expense have increased on average by 7% annually whereas forecast catastrophe net claims expenses have increased on average by around 10% annually.

Figure 5.13 below shows how the forecast net claims expenses compares to actual expense for home, contents and strata insurance across Australia.57

---

57 This figure does not include one insurer’s data in 2009–10, or another insurer’s strata data after 2012–13.
Chapter 5: The costs of providing insurance

Figure 5.13: Expected and actual net claims expense for home, contents and strata insurance products across Australia, 2009–10 to 2018–19, real $2018–19

Source: ACCC analysis of data supplied by insurers.

Figure 5.13 indicates that prior to 2012–13, insurers in aggregate underestimated their net claims expense by approximately $500 million each year. Only more recently have forecasts more closely aligned with the actual losses experienced. There was a wide range in the accuracy of forecasts amongst insurers for total net claims expense across all home, contents and strata insurance products. Three insurers accurately forecast their net claims expense most years. Two insurers consistently underestimated their net claims expenses, while one consistently overestimated. Two insurers had variable accuracy with their forecasts.

5.5 Claims causes

Insurers were asked to provide a breakdown of their gross claims expense by claim type each year from 2008–09 to 2017–18 for each region across Australia.

Some claim causes have been grouped together to limit discrepancies in the data provided by insurers. The following groupings were used:

- fire, includes explosion
- storm, includes hail
- liability, includes both legal and public liability claims
- accidental damage and loss.

In northern Australia, the largest claims expense category from 2008–09 to 2017–18 is cyclone, with $1.4 billion in claims paid, making up 37% of total claims expense. The second largest category is storm (including hail) with $708 million in claims expense (19%). Water damage, flood, and fire each caused between $340 million and $276 million (9 to 7%). No other claim cause totalled over $90 million (2%) in claims over the decade.

The exception is unclassified claims which made up $455 million or 12% of the total data provided by insurers. Unclassified claims include both claims causes not listed below and data that insurers were unable to properly distribute among the listed claims causes. Although it includes some claims causes not listed below we do not believe this makes up a sizeable portion of the unclassified data. Gross claims expense for all northern Australian home, contents and strata policies from 2008–09 to 2017–18 is shown in figure 5.14 below.

Figures 5.14 to 5.17 show various breakdowns of gross claims expense attributable to either working claims causes or natural peril causes across each region. The natural peril categories are displayed in
purple and include bushfire, cyclone, earthquake, flood, storm, and storm surge. The working claims causes are shown in cyan and include accidental damage and loss, fire, fusion, impact, theft, vandalism and malicious damage, water damage, and liability claims. Unclassified claims are shown in green.

**Figure 5.14:** Gross claims expense for all northern Australian home, contents and strata products, 2008–09 to 2017–18, real $2018–19

In the rest of Australia, the most expensive claims cause is storm, at $8.7 billion over the decade representing 27% of claims expenditure. Fire ($5.3 billion, 17%), water damage ($4.6 billion, 14%), and theft ($2.6 billion, 8%) are the next largest contributors. Again, there is a substantial number of unclassified claims, totalling $4.2 billion, or 13% of the total data provided.

**Figure 5.15:** Gross claims expense for all rest of Australian home, contents and strata products, 2008–09 to 2017–18, real $2018–19

Figure 5.16 below shows the proportion of gross claims expense attributable to natural peril causes across each region, with unclassified claims excluded from underlying data. It is clear that natural perils make up a significant portion of the gross claims expense and are extremely volatile in north Queensland and north Western Australia. The Northern Territory claims profile has notably fewer natural peril claims than the other northern Australian regions, however its peaks are still above the rest of Australia. The rest of Australia is the least volatile region over the 10 year period, however it can
still be visibly influenced by major natural catastrophes such as the 2010–11 Queensland floods or the 2014–15 Brisbane hailstorm.

**Figure 5.16:** Proportion of gross claims expense for all home, contents and strata products attributable to natural peril causes, 2008–09 to 2017–18

![Proportion of gross claims expense for all home, contents and strata products attributable to natural peril causes, 2008–09 to 2017–18](chart)

Source: ACCC analysis of data obtained from insurers.

When considering figure 5.17 below, which looks at the same data but on a per policy basis, it becomes apparent that the level of working claims is largely consistent across Australia, and that the difference in gross claims expense per policy is strongly influenced by natural peril claims.

**Figure 5.17:** Gross claims expense per policy for all home, contents and strata products attributable to working or natural peril causes, 2008–09 to 2017–18, real $2018–19

![Gross claims expense per policy for all home, contents and strata products attributable to working or natural peril causes, 2008–09 to 2017–18, real $2018–19](chart)

Source: ACCC analysis of data obtained from insurers.

Note that the Northern Territory has the lowest natural peril claims expense per policy in northern Australia, and the lowest working claims expense across Australia. These are both largely because the main population centre is Darwin, which has an overall high level of resilience following the Cyclone Tracy rebuild.
North Queensland has the largest average natural peril expense per policy because of multiple natural catastrophe events since 2008–09. By comparison, only 2014–15 in north Western Australia and 2017–18 in the Northern Territory stand out as very high claims years.

When considering the underlying working claims causes, on average, accidental damage and loss, fire, fusion, impact, and liability average claim sizes all differ by less than 20% between northern Australia and the rest of Australia.

The difference in claims expense per policy between northern Australia and the rest of Australia is largely because of cyclone claims, and to a lesser extent flood claims and storm claims. Northern Australian cyclone claims expense averages $313 per policy per year compared with just $3 in the rest of Australia. Flood claims expense in northern Australia averages $70 per policy per year, compared with $18 in the rest of Australia. Storm claims expense in northern Australia averages $159 per policy per year, compared with $107 in the rest of Australia.

The only claims causes where the rest of Australia had a notably higher cost per policy were theft and bushfires. For theft claims, the rest of Australia averaged a cost of $32 per policy per year, compared with northern Australia’s $17. This is because the average theft claim size in northern Australia is only $3,883 compared with $5,701 in the rest of Australia.

These are very general figures that can obscure large variations between subregions, but they do still show the overall scale of the differences between northern Australia and the rest of Australia in aggregate.

5.6 Reinsurance

Reinsurance is taken out by insurers, generally at a whole of portfolio level, typically to protect insurers from significant natural peril events impacting their portfolios. Reinsurance programs differ greatly between the insurers who operate within northern Australia, and are influenced by their level of exposure in northern Australia, the rest of Australia, and internationally, as well as prudential capital requirements and preferences.

There are various types of reinsurance available to general insurers, however two of the most common forms are proportional and non-proportional reinsurance.

Under proportional reinsurance arrangements, the reinsurer accepts a fixed percentage of both premiums and claims. Several insurers have purchased proportional reinsurance to reduce their total exposure and the amount of catastrophe reinsurance required.

Under non-proportional reinsurance, the insurer retains the cost of claims up to a certain threshold (the retention limit or excess) and the reinsurer pays the cost of claims above that point. Insurers usually purchase non-proportional ‘excess of loss’ catastrophe reinsurance policies to provide protection against large losses arising from catastrophic events such as cyclones or floods. They may also purchase aggregate reinsurance cover to provide protection against multiple catastrophic losses.

Non-proportional catastrophe reinsurance can provide protection against a concentration of insurance policies in a single location. APRA requires insurers to hold a certain amount of capital in order to protect against the risk of large losses, or multiple smaller catastrophe losses in a single year (insurance concentration risk). More generally, the amount of capital insurers are required to hold will be determined with reference to the overall risk of their portfolio.58 Under the prudential standard model, an increase in concentration risk in a higher risk area can potentially increase the amount of capital insurers are required to hold and therefore may increase the amount of capital they choose to hold to maintain a buffer above the minimum required amount.

When an insurer purchases reinsurance, it will generally reduce the amount of capital it needs to hold.

58 An insurer may also decide to make adjustments to their premiums to reduce their concentration risk in a local area, or their overall level of risk; these are considered in detail in chapter 7.
Overall, northern Australia makes up 12% of national reinsurance expense (that is, the proportion of reinsurance costs that insurers allocated to northern Australian policies), but represents 18% of national reinsurance recoveries since 2007–08.

It should be noted that because reinsurance is purchased at an aggregate level, the data shown in figure 5.18 and figure 5.19 are estimates derived from allocations of reinsurance expenses and recoveries to historical periods using a current view of the catastrophe risk profile and not actual data.

The spikes in reinsurance recoveries in figure 5.18 are due to Cyclone Yasi, Cyclone Debbie, and the Townsville Floods, which caused reinsurance recoveries to exceed reinsurance expenses in northern Australia.

The cession ratio is the reinsurance expense divided by gross earned premium. It gives an indication of how much risk insurers retain or pass on to reinsurers. Overall, the cession ratio is consistently higher in northern Australia than in the rest of Australia.

Figure 5.19 below shows the cession ratio for insurers in northern Australia over time. A couple of insurers appear to have made significant adjustments to their reinsurance arrangements, particularly by 2013–14, but the majority have remained fairly steady since then. There is also a wide range in the cession ratio between insurers, reflecting the different risk appetites and reinsurance programs of each insurer.

Source: ACCC analysis of data supplied by insurers.
Figure 5.19: Cession ratio in northern Australia for each insurer, 2010–11 to 2018–19

Source: ACCC analysis of data obtained from insurers.

5.7 Underwriting costs

Underwriting costs are the costs to the insurer of obtaining and recording customers and their policies, excluding commission costs which are being considered separately.

The underwriting cost per product for all home, contents or strata products decreased from $136 to $124 in northern Australia in 2018–19. This is the lowest average cost since 2012–13 and the large decrease is a notable deviation from the recent slightly decreasing trend. In the rest of Australia, underwriting cost per product rose slightly to $83 from its 12 year low of $76 in 2017–18. Northern Australian policies incurred $41 higher underwriting costs for insurers than those in the rest of Australia in 2018–19.

5.8 Commission costs

Commission costs for all home, contents and strata products in northern Australia have quadrupled since 2007–08, however growth has slowed since 2012–13. About half that growth can be attributed to increased number of policies where commission costs are payable (sold through an insurance broker or insurer intermediary), and the other half to higher commissions being paid on higher premiums.

Commission costs have remained fairly steady since 2012–13 and have remained considerably higher in northern Australia than in the rest of Australia. When averaged across all policies (whether or not commission was paid) commission costs in the rest of Australia rose by $11 to $79 from 2012–13 to 2018–19. In Northern Australia, average commission costs rose by $6 to $151 over the same period.

On average, northern Australian policies have incurred between $72 and $81 higher commission costs than the rest of Australian policies each year since 2012–13. The higher amount of commission cost per home, contents or strata product in northern Australia compared with the rest of Australia continues to be attributable to commissions usually being calculated as a percentage of premiums, and premiums being higher on average in northern Australia. Additionally, the use of brokers is more common in northern Australia, as outlined in chapter 20.
6. Profitability of insurers in northern Australia

Key points

- Over the 12-year period to 2018–19, based on data supplied to the inquiry, insurers in northern Australia have experienced an estimated aggregate gross loss across home, contents and strata insurance products of approximately $856 million in real terms (including a loss of $208 million in 2018–19).

- Aggregate losses over the 12-year period were estimated at $767 million in north Queensland (a margin of -13%), $9 million in the Northern Territory (a margin of -2%) and $81 million in north Western Australia (a margin of -17%).

- While the region remains largely unprofitable, performance improved over more recent years as premiums increased significantly, especially between 2010–11 and 2013–14. From 2007–08 to 2012–13, insurers had aggregate profit margin of -24%, while this rose to a margin of -6% in the most recent six year period to 2018–19.

- Only one insurer generated a small positive profit margin over the 12-year period, and this margin was lower than their corresponding performance for the rest of Australia.

- Insurers’ financial performance in northern Australia remains inferior when compared with the rest of Australia. Financial performance measured for the whole 12-year period to 2018–19 is inferior compared with both whole of Australia and global general insurance metrics.

- Compared to the rest of Australia, northern Australia is underperforming for each specific product line.

- In northern Australia and the rest of Australia, the profitability of contents insurance substantially exceeds profitability of home and strata insurance.

- Home insurance in northern Australia has incurred an estimated 12-year aggregate loss of $785 million (a profit margin of -16% in northern Australia compared to 5% in the rest of Australia.

- Contents insurance was marginally profitable in northern Australia over the 12-year period, with gross profit estimated at $7 million. However this was well below the performance of contents insurance in the rest of Australia, where there was a profit margin of 27% over the same period.

- Strata insurance had an estimated loss of $67 million in northern Australia, over the twelve years to 2018–19, with a profit margin of -13%, compared to 2% in the rest of Australia.

- Insurer level profitability is generally consistent with the aggregated analysis by region and product. Performance is generally inferior compared to the rest of Australia although there has been an improvement in the ratios in more recent years. No insurers were profitable in northern Australia in 2018–19.

Understanding the profitability of supplying insurance in northern Australia is important for evaluating the health of the sector. Striking an appropriate balance between insurer profitability and consumer access to affordable insurance requires insurers to be both sufficiently profitable and financially sound, but not excessively profitable in relation to the underlying risk.

This chapter sets out our approach to assessing insurer profitability in northern Australian markets and the challenges in doing so given data limitations. The high variability in claims costs, and therefore profits, regions prone to natural catastrophes means that monitoring performance over longer timeframes is more meaningful.

We consider various metrics for assessing profitability before applying these at the regional, product and insurer level. We also make comparisons with profitability measures in the rest of Australia, for the general insurance category as a whole and some international comparisons.
6.1 Our approach to assessing insurer profitability

We examined profitability across regions and products within northern Australia to understand the industry, and potentially help provide direction for further investigation or consideration on competition issues in those segments.

We also use other parts of the insurance industry as comparators:

1. the rest of Australia (outside of northern Australia) for home, contents and strata
2. the whole of Australia for general insurance
3. global performance statistics for general insurance.

None of these are perfect comparators, but they all have at least some comparability and generally have a similar risk profile. We do this using a set of standard profitability measures including gross profit, profit margin, gross and net loss ratios, combined ratios and underwriting results. These are set out in box 6.1 below.

**Box 6.1: Profitability measures**

- **Profit (or loss):** Nominal profit or loss before tax prepared in a format consistent with APRA reporting forms (GRF 310).
- **Profit margin:** Profit or (loss) divided by gross earned premium.
- **Gross Loss Ratio (GLR):** Ratio of gross incurred claims to gross earned premium. The gross loss ratio provides a view on profitability exclusive of reinsurance and underwriting expenses (such as acquisition costs and commissions). The gross loss ratio provides a view on the profitability of the product itself, unaffected by how profits are split between the primary insurer and reinsurers.
- **Net Loss Ratio (NLR):** Ratio of net incurred claims to net earned premium. The net loss ratio is the GLR plus the impact of reinsurance premiums and reinsurance recoveries on claims. This ratio is an indicator of the profitability of the product inclusive of reinsurance, but not including underwriting expenses.
- **Combined Operating Ratio (COR):** Net incurred claims plus underwriting expenses, as a proportion of net earned premium. This is equivalent to the sum of the NLR and expense ratio. The COR provides one of the most complete performance metrics as it incorporates all the above ratios. The COR does not include investment returns or other non-underwriting income and expenses. Insurers with CORs which marginally exceed 100% can remain profitable overall, depending on the returns on their related investment portfolios. Investment income varies from year to year depending on broader economic conditions and the investment choices of insurers. For the six years from 2013-14 to 2018-19, investment income amounted to around 4 to 8% of gross earned premium amounts at a national level.

Each measure identified above provides a different insight into profitability. Examining each measure in aggregate, over time, and by product and sub-region provides a more complete understanding of the drivers of profitability. They facilitate a comparison of the financial performance of northern Australia against profitability in the rest of Australia, worldwide and against other comparators.

The time scales we have used

The profitability of insurance offerings which include catastrophe cover are highly unpredictable over the short term. For this reason, profitability is preferably monitored over extended periods of time rather than for individual years. The timeframe observed by this inquiry is substantial and spans a period where there were both substantial increases in premiums and large weather events.

We have utilised performance metrics and calculated these over three different averaging periods: an average over the 12 years from 2007-08 to 2018-19, the six-year period from 2007-08 to 2012-13 and the six years from 2013-14 to 2018-19. These blocks of financial years were selected to split the 12 years into two substantial time periods.
The first six-year period (from 2007–08 to 2012–13) was characterised by steadily increasing premiums for most consumers in northern Australia. Premium increases for the second six-year period (from 2013–14 to 2018–19) have generally been more modest.

**Data, assumptions and caveats**

The insurer and industry data utilised in this report was primarily obtained using our information gathering powers under section 95ZK of the *Competition and Consumer Act 2010* (Cth). It was collated and analysed with the assistance of the Australian Government Actuary (AGA).

Financial data was obtained for each region of northern Australia: north Queensland, the Northern Territory and the north of Western Australia. For many cost and some revenue items, insurers do not record financial data at a regional level, or split by product type.

Insurers generally view profitability using a variety of techniques and for different purposes. Insurers do not analyse profit for home, contents and strata in the geographical specifications relevant to this inquiry. As such, the profitability metrics presented here for northern Australia are based on revenue and expense allocations prepared by insurers for the purpose of this inquiry, and also further allocations conducted by AGA where required.

Insurers prepare annual statutory financial statements for submission to the Australian Securities and Investments Commission (ASIC). The financial statements present the statement of comprehensive income for the company as a whole which is for all products and regions combined. For annual APRA return reporting insurers also prepare whole of portfolio income and expense data for submission under GRS 310.59 APRA collects further statistical data by product and state under the reporting standards GRS 420.0 Premium Revenue by State and Territory of Australia and GRS 430.0 Claims Expense by State and Territory of Australia.60 The submissions of financial data to ASIC and APRA are not of sufficient granularity to shed light on profitability in northern Australia.

Internally, insurers also have varying methodologies for assessing profitability which do not neatly align with the scope of our inquiry. Profit is typically measured most completely at a product and state basis. Insurers may also commonly monitor profitability by distribution channels, i.e. direct, referrals networks or intermediaries. Profit metrics do not typically re-create the holistic view of profitability down to a measure of profit before tax at a regional level. A more simplistic approach such as raw loss ratios may also be used to measure financial performance.

Specific elements used in determining profitability, such as return on investments, corporate operating expenses, certain underwriting expenses, movement in reserves for claims incurred but not reported and reinsurance costs and recoveries, are not commonly attached to the specific product types and regional view we are investigating as part of this inquiry.

The following profitability elements in particular are by their nature difficult to allocate retrospectively to product and region:

- Reinsurance expense and reinsurance recoveries. As financial data was not originally captured by product and region for financial reporting purposes this requires a manual allocation. Reinsurance programs are by their nature inherently complex. Catastrophe policies may cover risk and regions which are not the subject to this inquiry. Methods have been applied by insurers to retrospectively allocate these charges and recoveries to the products and regions.

- Movement in outstanding claims liabilities. The movement in this component comprises elements which are both reported and unreported. There is actuarial calculation in determining the movement in the reserves. For example, claims incurred but not reported may be determined at a point in time historically by product, but not by a specific region within northern Australia. Insurers were asked to allocate the movement in outstanding claims liabilities retrospectively.

---

59 APRA, GRS 310.0 Income Statement and GRS 310.3 Details of Income and Expenses.
Allocations were prepared by insurers in most cases with a current view on risk. It is possible that the outcome of their allocation exercise may differ from the view which was in existence in the financial year which is subject to the allocation.

Where insurers have been unable to allocate the profitability elements, AGA has estimated the allocation. Table 6.1 details at a high level the typical methodology applied by insurers to allocate revenue and expenses to products and regions within northern Australia.

<table>
<thead>
<tr>
<th>Component of profit</th>
<th>Typical examples of insurer allocation methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross earned premium</td>
<td>Allocated to financial data based on policy level information at a postcode level.</td>
</tr>
<tr>
<td>Outwards reinsurance premium</td>
<td>Premium for catastrophe reinsurance was generally allocated considering expected losses derived in the pricing of the risk. For example using the output of catastrophe vendor models the total catastrophe excess of loss premium was allocated in proportion to expected losses. Where quota share reinsurance is used this can be directly allocated based on the cession rates applied to gross earned premium.</td>
</tr>
<tr>
<td>Paid claims</td>
<td>Allocated to financial data based on the underlying claims databases.</td>
</tr>
<tr>
<td>Movement in claims reserves</td>
<td>The total estimated movement on claims within the period, taken from claim data sources, particularly for movement in outstanding individual claims. Movement in claims incurred but not reported included the allocation of current-year movement based on gross claims incurred within the relevant northern Australian postcodes. Allocation of prior-year movements is based on case estimates and the relevant northern Australian postcodes.</td>
</tr>
<tr>
<td>Non-reinsurance recoveries</td>
<td>Allocated directly based on policy level information</td>
</tr>
<tr>
<td>Reinsurance recoveries</td>
<td>Apportioned based on analysis of the reinsurance recoveries by event and reinsurance claim during each period to determine the contribution from each event and reinsurance claim to a period’s reinsurance recoveries. Catastrophe reinsurance recoveries were allocated to northern Australia based on the underlying cost of claims for events which occurred in the region.</td>
</tr>
<tr>
<td>Underwriting expenses</td>
<td>Apportioned based on mix of premiums, number of risks written, and amount of claims incurred.</td>
</tr>
<tr>
<td>Commission revenue</td>
<td>Apportioned based on quota share reinsurance terms where applicable.</td>
</tr>
<tr>
<td>Investment income</td>
<td>Taken from statutory accounts and apportioned out based on mix of premium/units/claims/claim units.</td>
</tr>
</tbody>
</table>

The financial data was not prepared for statutory or prudential reporting, and has not been subject to independent external audit. We note that there is some judgment in the allocation of financial data to products and regions within northern Australia.

We are reliant on the accuracy of financial data submitted by insurers. All references to years are for the financial years ending 30 June of that year, and profit is considered to be pre-tax.\textsuperscript{61}

### 6.2 Profitability in northern Australia has been poor

Over the 12-year period to 2018–19, based on data supplied to the inquiry, insurers in northern Australia have experienced an aggregate gross loss across home, contents and strata insurance products of approximately $856 million in real terms (including a loss of $208 million in 2018–19).

\textsuperscript{61} The data for 2018–19 does not include Defence Services Homes Insurance Scheme which was also incorporated in 2017–18 and prior years.
Financial performance was also relatively poor in northern Australia according to other profitability metrics:

- For the 12-year period to 2018-19 an average GLR of 86% in northern Australia, compared with 60% in the rest of Australia.\(^\text{62}\) For home insurance a GLR of around 60 to 65% might be regarded as indicating broadly adequate premium rates. Higher loss ratios than this might be regarded as indicating inadequate premium rates.\(^\text{63}\)

- An average NLR of 93% in northern Australia, compared with 66% in the rest of Australia over the 12-year period to 2018-19.\(^\text{64}\)

- CORs as an average for all insurers in northern Australia substantially exceed 100% in years of heavy catastrophe activity, particularly resulting from tropical cyclone Yasi (2011) and other flooding in Queensland in 2011.\(^\text{65}\)

Within the data there are varying degrees of profitability between regions and for specific products. These are considered further in following sections.

### 6.3 Northern Australia profitability trends

The inherent nature of catastrophe cover is that it has high variability in claims costs and therefore profits. Accordingly, monitoring performance over longer timeframes is more meaningful.

While profitability over the period to 2017-18 was sub-par, there were indications of improving performance in the five financial years to 2017-18 compared with the period 2007-08 to 2012-13. As we note in chapter 3, many insurers reassessed the way that they set insurance premiums following high catastrophe claims in 2010-11, and average premiums increased significantly between 2010-11 and 2013-14.

However in 2018-19 profitability again declined and the trend towards improving performance appeared to have stalled, as illustrated in figure 6.1.

**Figure 6.1:** Northern Australia estimated profit, gross earned premium and profit margins, 2007-08 to 2018-19, real $2018-19

Source: ACCC analysis of data obtained from insurers.

---

\(^\text{62}\) The gross loss ratio (GLR) is gross incurred claims divided by gross earned premium as a percentage.


\(^\text{64}\) The net loss ratio (NLR) is net incurred claims (current and prior years) divided by net earned premium.

\(^\text{65}\) The combined operating ratio (COR) is the net incurred claims (current and prior years) plus underwriting expenses divided by net earned premium.
For the 12 years to 30 June 2019, insurers in northern Australia are estimated to have experienced an aggregate loss across home, contents and strata insurance products of approximately $856 million.

The GLR averaged 86% over the 12-year period, which is higher than the generally accepted range of 60 to 65% necessary for adequate profitability. Similarly the NLR (which also incorporates both the cost and benefit of reinsurance) was high at 93% for the period.

Figure 6.2 below also illustrates the general profitability trend over the 12-year period both pre and post the impact of reinsurance.

![Figure 6.2: Profit before and after reinsurance (as a proportion of gross earned premium), 2007–08 to 2018–19](image)

Source: ACCC analysis of data obtained from insurers.

### 6.4 Northern Australia remains less profitable than the rest of Australia

Over the 12 years to 2018–19, insurers have made an estimated profit of $8.2 billion from home, contents and strata insurance in the rest of Australia, on gross earned premium of $69 billion, at a profit margin of 12%. Both the estimated profit and profit margin are significantly higher for the rest of Australia than for northern Australia as shown in table 6.2 below.

<table>
<thead>
<tr>
<th>Region</th>
<th>Northern Australia</th>
<th>Rest of Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit (loss) $m</td>
<td>(856)</td>
<td>8,218</td>
</tr>
<tr>
<td>Profit margin</td>
<td>(13%)</td>
<td>12%</td>
</tr>
<tr>
<td>2007–08 to 2018–19 total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which 2007–08 to 2012–13</td>
<td>(581)</td>
<td>3,007</td>
</tr>
<tr>
<td>of which 2013–14 to 2018–19</td>
<td>(275)</td>
<td>5,210</td>
</tr>
<tr>
<td>Profit margin</td>
<td>(6%)</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Average GLR and NLRs also provide an indication of the relatively poor profitability of insurers in northern Australia. The average GLR for the 12-year period for insurers in northern Australia was 86%, which is 26 percentage points higher than for the rest of Australia.

The NLR (inclusive of reinsurance costs and recoveries) shown below in figure 6.3 for northern Australia and for the rest of Australia reveals both greater volatility and a higher average ratio for

---

northern Australia compared with the rest of Australia. Specifically, the data indicates that the NLR is 27 percentage points higher in northern Australia than for the rest of Australia.

Figure 6.3: Net loss ratios, all products, 2007–08 to 2018–19

![Net loss ratios, all products, 2007–08 to 2018–19](image)

Source: ACCC analysis of data obtained from insurers.

Natural disasters, specifically cyclones and floods, are one factor that contributes to the volatility in the net loss ratios, illustrated above. Also, the smaller size of insurance markets in northern Australia relative to the rest of Australia is likely to be a contributing factor to the differences in volatility observed between the two regions.

For instance, there were very high loss ratios in 2007–08 (affected by the Mackay flood), 2010–11 (Cyclone Yasi), and more recently in 2016–17 (Cyclone Debbie), 2017–18 (north Queensland flooding) and 2018–19 (floods in Townsville and other parts of northern Queensland).

Another illustration of the volatility and impact of claims costs is shown in figure 6.4. This reveals that while the total premium collected is quite stable year on year the claims incurred can fluctuate dramatically. As noted above, 2018–19 was an unprofitable year, and this is illustrated below with claims substantially exceeding premiums for this year.

Figure 6.4: Gross earned premium and gross claims incurred for home, contents and strata insurance in northern Australia, 2007–08 to 2018–19, real $2018–19

![Gross earned premium and gross claims incurred for home, contents and strata insurance in northern Australia, 2007–08 to 2018–19, real $2018–19](image)

Source: ACCC analysis of data obtained from insurers.
6.5 Profits vary significantly by region, product and insurer

Profitability by region

Figure 6.5 illustrates the profit margins per region over the 12 year period to 2018–19. Over the 12 years northern Queensland has an aggregate loss of $767 million and an average profit margin of -13%. Profit margins have been better in the Northern Territory, although still negative, with the 12 year average profit margin of -2%. The 12 year Northern Territory aggregate loss is $9 million. In north Western Australia, the average profit margin over 12 years of was -17% and the aggregate loss was $81 million.

Figure 6.5: Profit margin for home, contents and strata insurance, by region, 2007–08 to 2018–19

Source: ACCC analysis of data obtained from insurers.

Profitability by product

Home insurance

Home insurance in northern Australia has incurred an estimated 12-year aggregate loss of $785 million.67

Figure 6.6 reveals the profit or loss attributable to home insurance both in northern Australia and for the rest of Australia. Consistent with the performance metrics across all products, a general improvement in profitability was evident over the 12-year timeframe in northern Australia.

The overall profit margin for this type of insurance over the 12-year period is relatively low with -16% in northern Australia and 5% in the rest of Australia.

---

67 This includes home insurance products and the home (building) component of combined home and contents insurance products.
Chapter 6: Profitability of insurers in northern Australia

For the whole of northern Australia the GLR for home insurance over the 12 years is 23 percentage points higher than for the rest of Australia and the NLR is 24 percentage points higher. This is predominantly driven by results in northern Queensland, which also has an average NLR of 101% during the period. It is evident that the loss ratios are also more volatile than the rest of Australia.

Table 6.3 shows that while the NLR in northern Australia was better in the second half of the 12-year period, the gap with the rest of Australia since 2007-08 is still significant at 24 percentage points.

Table 6.3: Net loss ratios, home insurance, 2007–08 to 2018–19

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Australia</td>
<td>100%</td>
<td>119%</td>
<td>92%</td>
</tr>
<tr>
<td>Rest of Australia</td>
<td>76%</td>
<td>83%</td>
<td>72%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Contents insurance

Contents insurance in northern Australia has been slightly profitable over the 12 year period, with an estimated accumulated profit of $7 million.68 Consistent with performance for the home insurance, a general improvement in profitability was noted over the period. A loss of $48 million was attributable to the period from 2007–08 to 2012–13. In contrast, the period from 2013–14 to 2018–19 generated an estimated profit of $55 million (despite an estimated loss of $24 million in 2018–19).

Figure 6.7 displays the gross profit or loss attributable to contents insurance both for northern Australia and the rest of Australia. The overall profit margin for this type of insurance is relatively high at 27% on average for the 12 years in the rest of Australia, substantially greater than that shown for northern Australia.

68 This includes contents insurance products and the contents component of combined home and contents insurance products.
The gross loss ratio (GLR) experienced in northern Australia on average for the 12-year period was 73%, compared to 45% for the rest of Australia.

After incorporating the cost and benefit of reinsurance there is also a clear margin between the NLR in northern Australia and the rest of Australia. This is particularly evident in the early years of the time period examined as illustrated in table 6.4 below.

Table 6.4: Net loss ratios, contents insurance, 2007–08 to 2018–19

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Australia</td>
<td>73%</td>
<td>81%</td>
<td>68%</td>
</tr>
<tr>
<td>Rest of Australia</td>
<td>49%</td>
<td>53%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Strata insurance

Over the twelve years to 2018–19, strata insurance had an estimated loss of $67 million in northern Australia.

Figure 6.8 reveals the profit or loss attributable to strata insurance both in northern Australia and for the rest of Australia. The overall profit margin for strata insurance over the 12-year period is relatively low with -13% in northern Australia and 2% in the rest of Australia. Figure 6.8 displays the breakdown of this financial loss between periods and compared with the rest of Australia.
Figure 6.8: Strata insurance profit, earned premium and profit margin, 2007–08 to 2018–19, real $2018–19

<table>
<thead>
<tr>
<th>Year</th>
<th>Northern Australia profit/loss</th>
<th>Northern Australia gross earned premium</th>
<th>Northern Australia profit margin</th>
<th>Rest of Australia profit margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007–08</td>
<td>-250%</td>
<td>-200%</td>
<td>-150%</td>
<td>-100%</td>
</tr>
<tr>
<td>2008–09</td>
<td>-200%</td>
<td>-150%</td>
<td>-100%</td>
<td>-50%</td>
</tr>
<tr>
<td>2009–10</td>
<td>-150%</td>
<td>-100%</td>
<td>-50%</td>
<td>0%</td>
</tr>
<tr>
<td>2010–11</td>
<td>-100%</td>
<td>-50%</td>
<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td>2011–12</td>
<td>-50%</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
</tr>
<tr>
<td>2012–13</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
<td>150%</td>
</tr>
<tr>
<td>2013–14</td>
<td>50%</td>
<td>100%</td>
<td>150%</td>
<td>200%</td>
</tr>
<tr>
<td>2014–15</td>
<td>100%</td>
<td>150%</td>
<td>200%</td>
<td>250%</td>
</tr>
<tr>
<td>2015–16</td>
<td>150%</td>
<td>200%</td>
<td>250%</td>
<td>300%</td>
</tr>
<tr>
<td>2016–17</td>
<td>200%</td>
<td>250%</td>
<td>300%</td>
<td>350%</td>
</tr>
<tr>
<td>2017–18</td>
<td>250%</td>
<td>300%</td>
<td>350%</td>
<td>400%</td>
</tr>
<tr>
<td>2018–19</td>
<td>300%</td>
<td>350%</td>
<td>400%</td>
<td>450%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Strata insurance in northern Australia is more concentrated than home and contents insurance. This can make the claims experience for strata insurance, and therefore the estimated profitability of strata insurance, more variable in those years impacted by natural catastrophes. For instance, the impact of Cyclone Debbie in 2016–17 is clearly shown in figure 6.8.

The 12-year average gross loss ratio for strata insurance of 74% in northern Australia is considered high when compared with 56% in the rest of Australia. By comparison the GLR was 122% for 2018–19.

The NLR for the 12-year period is substantially higher in northern Australia than for the rest of Australia at 85% versus 64% as shown in table 6.5. The reason for the substantial difference between the GLR and NLR is the attributed cost of reinsurance exceeding the benefit from reinsurance recoveries during the period.

Table 6.5: Net loss ratios, strata insurance, 2007–08 to 2018–19

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Australia</td>
<td>85%</td>
<td>104%</td>
<td>78%</td>
</tr>
<tr>
<td>Rest of Australia</td>
<td>64%</td>
<td>65%</td>
<td>64%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

**Profitability by insurer**

Consistent with the aggregate data, generally the 12-year averages at the insurer level demonstrate a greater loss in northern Australia than for the rest of Australia. Performance of the insurers also reveals that no insurer was profitable in northern Australia during 2018–19.

Details of the GLRs per insurer in the relevant date ranges are detailed in table 6.6 below. Table 6.6 reveals the insurer performance in the 12-year period to 2018–19. While all insurers have greater GLRs in northern Australia, the insurer level trends also indicate that profitability may have improved for the last six years from 2013–14 to 2018–19. The GLRs in this period for northern Australia are more in line with what has been experienced in the rest of Australia.

Individual insurer performance has generally improved in northern Australia in the five years from 2013–14 to 2017–18 where the ratios are more in line with the rest of Australia, however there was a marked increase in GLRs in 2018–19.
Table 6.6: Gross Loss Ratio for all home, contents and strata insurance products, 2007–08 to 2018–19

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurer 1</td>
<td>54%</td>
<td>48%</td>
<td>54%</td>
<td>56%</td>
<td>51%</td>
<td>56%</td>
</tr>
<tr>
<td>Insurer 2</td>
<td>70%</td>
<td>83%</td>
<td>62%</td>
<td>55%</td>
<td>56%</td>
<td>54%</td>
</tr>
<tr>
<td>Insurer 3</td>
<td>72%</td>
<td>90%</td>
<td>67%</td>
<td>54%</td>
<td>58%</td>
<td>52%</td>
</tr>
<tr>
<td>Insurer 4</td>
<td>75%</td>
<td>94%</td>
<td>68%</td>
<td>61%</td>
<td>65%</td>
<td>59%</td>
</tr>
<tr>
<td>Insurer 5</td>
<td>80%</td>
<td>110%</td>
<td>66%</td>
<td>59%</td>
<td>65%</td>
<td>54%</td>
</tr>
<tr>
<td>Insurer 6</td>
<td>87%</td>
<td>114%</td>
<td>77%</td>
<td>57%</td>
<td>72%</td>
<td>49%</td>
</tr>
<tr>
<td>Insurer 7</td>
<td>91%</td>
<td>122%</td>
<td>74%</td>
<td>57%</td>
<td>69%</td>
<td>49%</td>
</tr>
<tr>
<td>Insurer 8</td>
<td>99%</td>
<td>115%</td>
<td>91%</td>
<td>71%</td>
<td>80%</td>
<td>64%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Generally, insurers’ GLRs for northern Australia in 2018–19 were considerably worse than their shorter and longer term averages. One insurer was an outlier in its performance in 2018–19 with a gross loss ratio of 58%, matching this metric in the rest of Australia, as shown in table 6.7. The main explanation was its limited exposure to the Townsville catastrophe. There also does not appear to be a clear correlation between the scale of an insurer’s operations by premium and risks written and profitability.

Table 6.7: Gross Loss Ratio for all home, contents and strata insurance products in 2018–19

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Northern Australia</th>
<th>Rest of Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurer 1</td>
<td>58%</td>
<td>58%</td>
</tr>
<tr>
<td>Insurer 2</td>
<td>71%</td>
<td>68%</td>
</tr>
<tr>
<td>Insurer 3</td>
<td>106%</td>
<td>61%</td>
</tr>
<tr>
<td>Insurer 4</td>
<td>113%</td>
<td>57%</td>
</tr>
<tr>
<td>Insurer 5</td>
<td>117%</td>
<td>63%</td>
</tr>
<tr>
<td>Insurer 6</td>
<td>162%</td>
<td>63%</td>
</tr>
<tr>
<td>Insurer 7</td>
<td>176%</td>
<td>68%</td>
</tr>
<tr>
<td>Insurer 8</td>
<td>215%</td>
<td>52%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Figure 6.9 illustrates insurer profit margins over the 12 years to 30 June 2019. It compares profit margins in northern Australia and for the rest of Australia by insurer. For all insurers, profit margins continue to be greater in the rest of Australia compared with northern Australia, and for almost all insurers the difference is substantial. Five of the eight insurers had a positive profit margin over the prior 11 years from 2007–08. With the heavy losses in 2018–19, this dropped to just one insurer having a positive profit margin in the 12 year period from 2007–08.
6.6 Profitability in relation to the broader general insurance category

General insurance statistics

The statistics recognised in the previous section are for the product lines of home, contents and strata insurance only. Another means of assessing reasonableness of profitability is to compare the performance of these insurance products in northern Australia against the overall general insurance category in Australia and globally. This data includes other general insurance product lines including motor, commercial, travel and various other classes.

A simple comparator for the performance of the products subject to this inquiry and to the whole general insurance category is the combined operating ratio (COR). Using the COR avoids any issues of comparability because of any difference in size between the housing insurance and general insurance sectors.

For the five years from 2013 to 2017 the reported COR for the general insurance industry ranged from 87.9 to 94.4%.\(^{69}\) Publicly available global general insurance statistics indicate that CORs in various countries around the world typically fall in the range of around 90 to 105%.

This compares with northern Australia, where the average 12-year COR for home, contents and strata insurance products for the insurers reported on here was 125%. For the period 2008 to 2013 the COR was 145% and from 2014 to 2019 it was 116%.

Over time the gross loss ratios for the general insurance industry in the whole of Australia are also consistently lower and less volatile than the equivalent northern Australian experience for the products subject to this inquiry. Figure 6.10 reveals that with the exception of 2013–14 and 2015–16 northern Australia was either on par with or substantially underperforming against this comparator.

---

\(^{69}\) These statistics were presented in the KPMG General Insurance Industry Review for 2017. Data from this review was referenced to APRA Quarterly General Insurance Performance Statistics (Direct Insurers only) and KPMG analysis. See: [https://assets.kpmg/content/dam/kpmg/au/pdf/2017/general-insurance-industry-review-2017.pdf](https://assets.kpmg/content/dam/kpmg/au/pdf/2017/general-insurance-industry-review-2017.pdf), viewed 26 October 2020.

\(^{70}\) Specifically in the United States the IAIS Global Insurance Market report details that from 1991 to 2016 the average COR in the property and casualty insurance industry was 103.9%. The same market report also indicates that CORs for various other countries including, Germany, Italy, France, Belgium, Japan and more are also typically in the range of 90 to 105%. See: [https://www.iaisweb.org/file/82889/iais-global-insurance-market-report-2018v2](https://www.iaisweb.org/file/82889/iais-global-insurance-market-report-2018v2), viewed 26 October 2020.
Figure 6.10: Gross loss ratio for home, contents and strata insurance in northern Australia compared with gross loss ratio for all general insurance in the whole of Australia, 2007–08 to 2018–19

Source: Northern Australia data was sourced from ACCC analysis of data obtained from insurers. Whole of Australia is calculated using data from APRA general insurer quarterly performance statistics June 2019.
7. Competition in northern Australian insurance markets

Key points

- The level of concentration in northern Australian insurance markets continues to raise concerns for the effectiveness of competition in northern Australia. Home and contents insurance markets, and strata insurance markets, continue to be largely dominated by a small number of insurers. Strata markets are particularly concentrated in each region of northern Australia, and nationally.

- For consumers in northern Australian insurance markets, availability of insurers depends on their region and risk profile. Better data availability and pricing sophistication has enabled insurers to set premiums with reference to an increasing range of consumer and property characteristics. Insurers can, and do, selectively target certain locations or types of risk.

- Brands that have increased price competition in other markets also continue to largely stay out of northern Australian insurance markets.

- It appears insurers are not actively trying to win market share in high risk areas in northern Australia, as a relatively high market share can result in significant claims costs in the event of a catastrophe. Instead, insurers are implementing strategies to manage their exposure to the risk of concentration in these areas by increasing premiums or not writing new business.

- Insurers strive to improve the accuracy of their risk pricing models. However, the relative unpredictability of catastrophic events means the level of risk for a particular policy in high risk areas is not as certain as for other types of risks. Insurers routinely monitor prices offered by other insurers, and where they are the lowest priced offer they may fear that they have mispriced the risk. They then respond by raising their price.

- As insurers adjust premiums in high risk areas based on their current mix of policies and in order to manage their concentration risk, this can result in vast differences in quoted premiums between insurers. However, it is not easy for consumers to find out about cheaper alternatives as the market has several features which make it difficult for consumers to compare offers.

- Retention rates remain very high despite incentives to switch. The retention rates for combined home and contents insurance was 94% in north Queensland, 87% in the Northern Territory and 83% in north Western Australia in 2018–19.

- Consumers face high search costs in seeking potential alternative products, including the length of time it takes to complete online quotes and compare product features. Product complexity and the use of multiple brands and insurer intermediaries also adds to the difficulty in searching and switching.

- Eight insurers in northern Australia sell the vast majority of home, contents and strata insurance via approximately 30 different brands of their own and 119 insurer intermediaries, creating the illusion of more competition than actually exists and making comparisons more difficult.

- High switching costs, including search costs, are impacting the competitive pressure faced by suppliers in northern Australian markets by reducing consumers’ ability to easily search and switch to alternative suppliers offering better value.

- This has resulted in subdued price competition in many home, contents and strata insurance market segments in northern Australia.

This chapter looks at the current state of competition in insurance markets in northern Australia. Barriers to expansion and re-entry to northern Australian markets are considered in chapter 11.

Effective competition between insurers is crucial for, among other things, maintaining downward pressure on the costs of providing insurance, and for passing through the benefits of cost reductions to consumers.
In assessing the effectiveness of competition within insurance markets, we consider a number of factors, including developments in concentration levels, the availability of insurance, and the level of switching between insurers.

For an overview of the structure of insurance markets in Australia and across northern Australia, including the types of insurance products available, the size of various insurance markets in northern Australia and how insurance is supplied to consumers, see chapter 2.

7.1 Previous findings on competition

As highlighted in chapter 1, multiple inquiries have looked at insurance in northern Australia and Australia more broadly. Several have expressed concern at the current state of competition within these markets.

The Productivity Commission’s Final Inquiry Report into Competition in the Financial System 2018 notes that Australia’s general insurance market is highly concentrated. It found for national home, contents and strata insurance, the largest four firms hold market shares in excess of 70%. This concentration has increased slightly in recent years, mostly as a result of licence consolidation activity. Because many insurers supply their products under multiple brands, the Productivity Commission noted consumers may see more of an illusion of robust competition than a reality.

The Senate Economics References Committee’s 2017 report into Australia’s general insurance industry (the Senate Inquiry) also noted stakeholder concerns that Australia’s general insurance industry gives the ‘illusion of competition’, rather than genuine competition. The report noted concerns that competition in the general insurance market ‘is not fully effective’, and that there is a clear weakness on the demand side of competition in the industry. This manifests in low rates of consumer switching between insurers (consumer inertia), and the wide disparity that may be found between insurers in their quotations for identical properties and risks.

7.2 Concentration and market share

The level of concentration in northern Australian insurance markets continues to raise concerns for the effectiveness of competition in northern Australia. Home and contents insurance markets, and strata insurance markets, are largely dominated by a small number of insurers.

While Sure Insurance has recently entered north Queensland insurance markets, there are still fewer insurers than in the rest of the country. For example, Hollard, Auto & General, AIG, and RAC generally do not write new business in northern Australia. These insurers account for approximately 9% of home, contents and strata insurance gross written premium nationally. This means that consumers in northern Australia are not benefiting from the competitive pressure that these insurers exert in the rest of Australia. Understanding why these insurers generally do not supply insurance in northern Australia was the subject of our focus area on barriers to expansion and re-entry, set out in chapter 11.

For strata insurance, we have also seen insurers decide to exit the northern Australian market. Prior to 2016, Zurich, Brooklyn Underwriting and ACE Limited (now known as Chubb) provided strata insurance in northern Australia along with IAG, Suncorp, QBE, Allianz and RACQ. Since this time, Zurich and Brooklyn Underwriting have withdrawn completely from providing strata insurance while Suncorp has restricted its underwriting criteria. Chubb had only limited residential strata business in northern Australia from 2016, predominantly focussing on commercial lines and non-strata high end residential

---

71 Licence consolidation refers to a corporate group transferring its separate insurance licences to a single parent entity. It is predominantly related to the rationalisation of insurance licenses resulting from past acquisitions. The reduction in licences helps manage regulatory requirements more efficiently, align legal structures and simplify financial and administrative processes.


73 Senate Economic Reference Committee, Australia’s general insurance industry: sapping consumers of the will to compare, August 2017.

74 Source: ACCC analysis of data provided by APRA.
properties with large individual sums insured in other parts of Australia, however it has since re-entered strata insurance markets via Longitude and Expert Strata.

For insurers currently supplying home, contents and strata insurance in northern Australia, barriers to exiting markets are low. Home, contents and strata insurance is considered a ‘short tail’ risk, where the costs of claims are usually incurred during the term of the policy, or shortly after. As a result, an insurer usually does not hold any residual liabilities if it chooses to exit those markets.

There can be a reputational risk to insurers that choose to exit northern Australian markets, particularly with an insurer’s relationship with insurance brokers. For example, when Zurich exited northern Australian insurance markets in 2016, it considered the impact its exit might have on its relationships with its brokers and ensured it communicated the reasons for its decision to them. Exiting markets may also diminish brand value with consumers in those markets. An insurer may seek to avoid this by continuing to insure existing customers but not write new business. As discussed in chapter 10, premium adjustments may be applied in order to ‘shed’ customers and exit the area over a longer period.

Home and contents insurance markets

For insurers currently supplying insurance in northern Australia, national home and contents insurance market shares, shown in figure 7.1 below, remain fairly consistent with 2017–18 figures. IAG and Suncorp continue to be the clear market leaders, with Allianz, CommInsure and QBE being the next largest insurers with approximately 8 to 9% of the market each.

![Figure 7.1: Insurers’ share of total gross written premium for home and contents insurance products nationally, 2018-19](image)

Source: ACCC analysis of data obtained from insurers.

However, not all insurers supply in northern Australia. We do not have individual home and contents insurance market share figures for insurers that do not generally operate in northern Australia.

We do, however, have aggregate national figures for the 12 largest insurers in home, contents and strata insurance (householders insurance) markets by share of gross written premium (GWP).

Over the last 9 years, the top four insurers (referred to as the incumbents) have seen their householders insurance market share reduce by almost 10%. The incumbents’ reduction in market share is largely attributable to increases in market share from the challenger brands. The challenger brands have increased their market share from 7% up to 7.8% in the last financial year, while the top four insurers in Australia have seen their market share reduce from 71.8% to 69.8% in the same period. This is a continuation of the longer term trend, as shown in figure 7.2 below.

75 Hollard, Auto and General and Youi are frequently referred to as ‘challenger brands’ that seek to gain market share by aggressively competing on price.
Figure 7.2: Different groups of insurers’ share of total gross written premium for home, contents and strata insurance nationally, 2010–11 to 2018–19

Source: ACCC analysis of data provided by APRA.

In 2018, one insurer noted an analyst’s report that considers the challenger brands may have been underestimated by incumbents given initially slow growth. Another insurer in 2018 considered ‘historical gains by challengers have significantly slowed in the past financial year as their focus has shifted to underwriting performance and regulator responses.’ However, our analysis indicates the challenger brands continue to gain market share at a steady rate.

In northern Australian home and contents insurance markets, the north Queensland and Northern Territory markets continue to have one insurer that holds a significant proportion of the total premium for the region. Suncorp is the clear leader in north Queensland with almost 40% market share, and Allianz (via its TIO brand) is the clear leader in the Northern Territory with around 48%. In north Western Australia, IAG maintains its market leading position with approximately 30% market share.

Figure 7.3: Insurers’ share of total gross written premium for home and contents insurance products in northern Australian regions, 2018–19

Source: ACCC analysis of data obtained from insurers.
These trends in north Queensland and the Northern Territory appear to be, at least in part, a result of historic acquisitions of state and territory government insurance. Suncorp, formed from the former State Government Insurance Office of Queensland, has the majority share of premium for home and contents insurance products in north Queensland. While the TIO brand, previously owned by the Northern Territory government and now owned by Allianz, is the clear leader in the Northern Territory.

We note that the position in north Western Australia is slightly different as no one insurer has a significant share of the market. RAC, one of the leading insurers in Western Australia, does not provide services in the northern part of the state. While the market share of the leading insurer in north Western Australia, IAG, has reduced in the last decade. This appears to be a result of previous IAG strategies to reduce its exposure in high risk areas. For example, in 2008, the focus for IAG’s leading Western Australian brand (SGIO) for central and north Western Australia was to price so as to reduce its exposure to cyclone risk. In 2014, SGIO’s home strategy was to hold position at its current market share levels by targeting select risk segments and reducing its exposure to high flood and cyclone regions.

As shown in figure 7.4, Suncorp is the leading insurer by market share of total gross written premium for home and contents insurance and has been for the last 11 years. However, the two leading insurers in northern Australia, Suncorp and IAG, have seen a significant reduction in their share over the same period.\textsuperscript{76}

![Figure 7.4: Insurers’ share of total gross written premium for home and contents insurance in northern Australia, 2007–08 to 2018–19](image)

Source: ACCC analysis based on data obtained from insurers.

**Availability of home and contents insurance by region and risk profile**

As noted above, fewer insurers supply insurance in northern Australian insurance markets than in the rest of Australia. Reasons for this are explored further in chapter 11. Although there are fewer insurers in northern Australia, for the majority of northern Australian postcodes, there are four or more insurers supplying home and contents insurance.

Some northern Australian insurance regional markets have fewer effective participants, as not all insurers cover all regional markets and some insurers can seek to reduce exposure in regional markets either through refusing policies of a certain risk profile or by increasing premiums.

Data obtained from insurers for the 2018–19 financial year indicates seven to eight insurers have written new business in the majority of postcodes in north Queensland. However, in the Northern Territory and north Western Australia, all postcodes had six or fewer insurers write new business.

\textsuperscript{76} Allianz’s increase in market share since 2014–15 is driven by its acquisition of the TIO.
## Table 7.1: Number of insurers writing new home and contents insurance products in northern Australian postcodes, and percentage of population living in those postcodes, 2018–19

<table>
<thead>
<tr>
<th>North Western Australia</th>
<th>Northern Territory</th>
<th>North Queensland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of insurers writing new business</td>
<td>Number of postcodes</td>
<td>Percentage of North Western Australian population</td>
</tr>
<tr>
<td>0</td>
<td>5</td>
<td>2.54</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
<td>1.52</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>0.82</td>
</tr>
<tr>
<td>3</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>0.66</td>
</tr>
<tr>
<td>5</td>
<td>9</td>
<td>19.78</td>
</tr>
<tr>
<td>6</td>
<td>14</td>
<td>74.67</td>
</tr>
<tr>
<td>7</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>8</td>
<td>0</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers and 2016 ABS Census data.
Note: North Western Australian postcodes with zero insurers writing new business include four offshore islands currently or previously used for mining with few residential buildings and Telfer, a mining site. Northern Territory postcode with zero insurers writing new business is Charles Darwin University. Population figures are for 2016.

This indicates that for most north Western Australian and Northern Territory postcodes, there are fewer insurers currently writing new business than in other parts of northern Australia. However, as indicated by the percentage of population, the vast majority of people in northern Australia are in areas where there are six or more insurers writing new business.

More recently, Sure Insurance (backed by Liberty Mutual) has begun supplying insurance in north Queensland home and contents insurance markets. Auto & General has also begun supplying home and contents insurance, but only around the Rockhampton area.

As noted in chapter 2, in certain circumstances, unlicensed foreign insurers (UFIs) are permitted to underwrite risks in Australia. APRA statistics indicate that there are low volumes of UFI activity particularly after excluding fire and industrial special risk placements.\(^{77}\) For property insurance in northern Australia the challenge under the current guidelines is that any UFI would have limited incentive to assess and insure a risk that was effectively rejected by the existing market participants. If they were to do so it would be for low volume and high risk properties only, and these factors in combination are less likely to be attractive to a UFI.

While existing regulation enables UFIs to operate in northern Australia without Australian authorisation in particular circumstances, currently these insurers do not significantly participate in these markets. The Insurance Council of Australia considers the challenges and costs involved in operating in northern Australia effectively restrict sustainable participation to those with the capital and underwriting experience to do so.\(^{78}\)

### Strata insurance markets

The national strata insurance market remains largely dominated by a single insurer, CHU (underwritten by QBE) maintained its leading position with approximately 49% national residential strata insurance market share. Since 2017–18, Suncorp increased its share predominantly through gains with its AAMI and Suncorp branded direct strata insurance product. However, we note 2018–19 Suncorp data includes Resilium and Longitude Insurance gross written premium. Suncorp sold its Resilium brand and ceased underwriting Longitude Insurance towards the end of the 2018–19 financial year.\(^{79}\)

---

78 ICA submission to the NAII issues paper, p. 5.
2018–19, Resilium and Longitude had a combined national residential strata insurance market share of approximately 13%. Market share figures shown in figures 7.5 and 7.6 include market participants that underwrite the vast majority of strata insurance in northern Australia but may not include all market participants.

**Figure 7.5:** Insurers’ share of total gross written premium for strata insurance nationally, 2018–19

![Insurers’ share of total gross written premium for strata insurance nationally, 2018–19](image)

Source: ACCC analysis of data obtained from insurers.

Like residential home and contents insurance, the strata insurance market shares differ from the national trends, as illustrated in figure 7.6 below.

**Figure 7.6:** Insurers’ share of total gross written premium for strata insurance products in northern Australian regions, 2018–19

![Insurers’ share of total gross written premium for strata insurance products in northern Australian regions, 2018–19](image)

Source: ACCC analysis of data obtained from insurers.

In 2018–19, the TIO (an Allianz brand) was by far the largest supplier of strata insurance in the Northern Territory, with a share of approximately 90% of the total retail premium for residential strata, likely due to its historical position as the government insurer. In Queensland, Suncorp was the largest supplier of strata insurance thanks to a combination of its Longitude (23%), Resilium (11%) and Suncorp (9%) brands. We note the change of underwriter for Longitude and Resilium will have affected market share figures for north Queensland in 2019–20. In north Western Australia, SCIA (underwritten by Allianz)
has significantly increased its market share. However, because of the small size of the residential strata market in north Western Australia significant gains and losses occur regularly.

There are growing concerns about the availability of strata insurance throughout northern Australia, as detailed in the focus area on the challenges facing strata insurance markets, in chapter 16.

Overall, for both strata and home and contents insurance it does appear that the markets are led by the insurers who have acquired former state government or state based motoring association insurers.

7.3 How insurers compete in insurance markets

Insurers predominantly compete for business on price, policy coverage, and quality of service.

Price terms include the upfront premium (which is set with regard to the sum insured and the level of excess the insured is required to pay), and whether any discounts are available to the consumer, say for bundling other forms of insurance or for being a new customer.

Insurers also compete on non-price terms. This includes different levels of coverage for prescribed events, and whether their policy includes features such as accidental damage, personal valuables cover or total replacement in cases of catastrophe.

For many people, another important consideration is that an insurer will quickly and fully pay any claims. When a person purchases insurance, they are purchasing a promise that when an event occurs that requires rebuild, repair or replacement, their insurer will act quickly and decisively to protect what for many people is their most valuable asset. As a result, insurers can also leverage their brand reputation and value to gain customers and extract a higher premium.

Price rivalry between insurers

One of the primary factors insurers compete for customers on is price. Price terms include the upfront premium, the sum insured and the level of excess payable in the event of a claim, as well as any discounts available to the consumer.

As detailed in chapter 4, there are a number of ‘risk factors’ which increase the chance that a claim will be made for a particular property. For home and contents insurance, these are the property location (e.g. in a flood-prone area, an area subject to storm surges or in a cyclone-prone area), the age of the property (with more modern buildings constructed to more stringent building standards able to withstand extreme weather events), and the construction materials used (such as fibro compared to brick).

The competitive advantage of accurate pricing

Insurers’ ability to set premiums that accurately reflect the risk of providing insurance is important to their ability to compete in a market. First, it helps an insurer set prices in a way that will ensure that it remains profitable. Secondly, it is important for sending the right price signals to consumers, and helps the insurer to maintain the right ‘mix’ of risks. If an insurer sets premiums too high relative to the risk being insured, it is likely to lose business to more accurately priced competitors. Conversely, if an insurer sets its premiums too low, it may face ‘anti-selection’ where its share of high risk customers increases, which can lead to high claims and reinsurance costs (this is discussed in further detail in chapter 4).

The importance of accurately pricing insurance means that the insurers invest significant resources in developing their pricing models and these are valuable intellectual property.

Insurers will also put in place strategies to ensure that they are not over exposed in high risk areas (for example cyclone, flood and bushfire zones) otherwise their reinsurance costs will be higher causing premiums to rise and making them less competitive compared to other insurers. These strategies often take the form of ‘premium adjustments’, seeking to discourage or price out certain customer segments or otherwise reduce the insurer’s exposure in particular areas. These adjustments are considered in detail in chapter 10.
The difference in pricing approaches and sophistication also creates a level of differentiation in the market, as one insurer may rate an individual risk differently to a competitor resulting in different premiums for a consumer. This can create opportunities for consumers to save a significant amount of money by switching to an alternative brand. However as discussed below, there can be significant impediments to switching, reflected in high retention rates in northern Australia.

**Excess levels**

The excess is the amount payable by a consumer in the event of a claim, and represents the risk retained by the customer. The higher the excess, the higher the amount of risk retained by the insured and the lower the premium will be.

As set out in chapter 3, average excess levels are considerably higher across northern Australia (other than the Northern Territory) than they are for the rest of Australia and, across the country, average excess levels have grown significantly since 2007–08.

Insurers, their brands and their intermediaries may compete on price by varying their default excess levels, or otherwise encouraging customers to increase their excess amount. At least two insurers have increased their default excess in recent years to, what was at the time, the industry average of $500. One of these noted that this was done so as to not be competitively disadvantaged as recent research had indicated the upfront premium was the primary driver of taking up a policy, and most consumers accept the default excess level. For insurers supplying insurance in northern Australia, current default excesses range between $500 and $1,000, depending on the insurer and/or its brand.

Chapter 3 also notes that consumers in northern Australia appear more likely to increase their excess levels from default amounts, when compared to southern capital cities.

**Competing through offering discounts**

Insurers may also compete on price through the use of discounts. Examples include new customer discounts, discounts for buying online, bundling or multi-policy discounts for consumers who hold multiple products with the same insurer and no claim bonuses.

The most common form of discount offered by insurers and undertaken by consumers in both northern Australia and nationally is the ‘no claim bonus’, a discount for not having made a claim over a number of years. A no claim bonus will also serve to discourage small claims that are just over the excess level of a product.

The next main form of discounting is bundling, where an insurer will offer a discount for a person taking out multiple forms of insurance with the one company (for instance, home, contents and motor insurance). While some insurers also offer discounts to a customer that purchases their insurance online, as selling insurance online reduces overhead costs for insurers, or for being a new customer.

Discounts may also be offered for being a longstanding customer (‘loyalty discounts’). While a ‘no claim bonus’ can sometimes be transferred to a different insurer (or otherwise recognised through their pricing methodology), a ‘loyalty discount’ cannot. So while these discounts can have a direct impact on premiums, they may also serve to discourage consumers from switching brands. Of the eight insurers we obtained data from, four offer a ‘loyalty discount’. However, this is not uniformly offered across their brands.

‘Loyalty discounts’ are less common than discounts for no claims or for bundling. In 2017–18 approximately 12% of discounts applied being for staying with an insurer for multiple years. Whereas approximately 47% of discounts were for making no claims in recent years and 27% were for holding another relevant product with the same insurer. These patterns are similar for both northern Australia and Australia as a whole.

The scale and type of discounts offered by insurers are discussed in more detail in chapter 4.

---

80 Source: ACCC, based on information provided by insurers.
**Non-price rivalry**

Alongside price competition, insurers also compete on non-price terms. This includes different levels of coverage for prescribed events, such as whether their policy includes features such as accidental damage, personal valuables cover or total replacement in cases of catastrophe and service, including claims handling.

At a basic level of cover, insurers will cover the insured for a prescribed range of events. Insurers may compete on the types of events included in a policy as standard. For example, NRMA offers storm surge as part of its standard home and contents insurance product whereas Youi does not.

Insurers may also compete on introducing product innovations that differentiate themselves from other insurers. After the 2002 ACT bushfires, two insurers adopted extended replacement policies that provided an additional 25% or 30% above the sum insured.\(^{81}\) This now is an optional extra offered by most insurers.

However, competition between insurers in terms of product features can make it difficult for consumers to compare between products and can add to their searching costs. This, coupled with a reluctance to move away from a familiar product, can act against more active consumer engagement in insurance markets.

Finally, insurers compete on service and claims handling ability, which will largely be dependent upon reputation and previous customers’ experience.

### 7.4 Concentration risk is softening competition in high risk areas

As discussed in more detail in chapters 4 and 10, insurers try to limit their exposure in high risk areas (or their concentration risk) due to the losses that may be faced in the event of a catastrophe. That is, a relatively high market share in a particular geographic location is often seen as undesirable due to the potential for significant claims costs in the event of a catastrophe affecting the area. Insurers wish to manage their exposure in these areas to reduce the volatility in claims costs and profits. Limiting exposure in these areas can also help to manage reinsurance costs. As a result, in many high risk areas, insurers do not actively seek to increase their market share. They do so by either not writing new business in a certain location or of a certain risk profile, or by increasing premiums.

For example, in 2011, a senior manager at one insurer sought to increase premiums in far north Queensland more than what was proposed in the rest of the state due to concerns at the rate of growth in this area and in order to provide evidence to its reinsurers that it was seeking to slow growth in this area. As such, it was proposed far north Queensland premiums would increase 40% as opposed to the rest of Queensland at 18%.

In many cases insurers are using pricing to reduce their risk concentration in an area, or in some cases, they may stop writing new business altogether. As a result, insurers place less competitive pressure on other insurers in high risk areas where they are trying to manage their exposure.

In 2016, competitor pricing analysis indicated one insurer was “rather cheap” in the Pilbara region of Western Australia, and this gave explanation to the amount of business it was writing in the area. In order to arrest growth in this region, a senior manager approved premium increases across the insurers’ brands.

While in 2011, an insurer implemented a strategy of not growing its aggregate exposures for strata properties in severe, high or extreme cyclone zones in Queensland. It did this by only writing new business that satisfied a certain criteria that fit its desired risk profile, and offsetting any new business by not renewing what it considered poorer risks. This included not writing any business in these regions for properties built prior to 1983, located in remote areas or islands, of inferior or non-massive construction and risks with a poor claims history.

---

The effect of these and similar decisions is that there can be fewer insurers setting premiums at a price intended to increase market share, with insurers avoiding being the cheapest in some areas.

**Higher risk consumers have fewer options**

Consumers in northern Australia generally have fewer alternative suppliers compared with consumers elsewhere in Australia.

Some insurers have made a business decision to only operate in certain regions. For example, RACQ does not generally offer insurance outside of Queensland. Of the eight insurers that we have obtained detailed information from, all eight supply home and contents insurance in Queensland, six in the Northern Territory and seven in north Western Australia.

Most insurers do not currently embargo entire postcodes within the regions of northern Australia in which they operate. However, increasing pricing sophistication and moves to address level pricing have also enabled insurers to selectively embargo single addresses and parts of postcodes considered high risk or outside their underwriting appetite.

We have obtained evidence that many insurers currently have embargoes in place on certain properties within some postcodes of northern Australia because of their exposure to high cyclone and flood risk.

For example, in 2018-19, one insurer would not insure properties across some cyclone exposed postcodes for properties built before 1990 unless the resident can provide evidence their property is built to cyclone standards. Several insurers would not insure properties in some postcodes if they are deemed by that insurer to be a high or extreme flood risk. The number of households within a postcode impacted by risk specific embargoes depends on how widespread the risk is. For one insurer, multiple postcodes each had between 500 and 1,000 households that were under embargo.

A resident whose property is embargoed by one or more insurers is unlikely to be aware of the fact unless and until they are advised by the insurer(s).

As part of our inquiry, we obtained detailed information about the number of quotes insurers have provided to consumers, and the number of consumers refused quotes because of factors such as the location of their property, the risk rating of the property to be insured or the condition of the property, among others.

Selecting the Mackay postcode (4740), 19,294 quotes were provided by eight insurers, and 133 quotes were refused, for the reasons set out in table 7.2.
Table 7.2: Properties refused a new combined home and contents insurance product quote by reason in Mackay 4740, 2018–19

<table>
<thead>
<tr>
<th>Reason for refusal</th>
<th>Number of refusals</th>
<th>Proportion of refusals by reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>24</td>
<td>18%</td>
</tr>
<tr>
<td>Risk rating</td>
<td>12</td>
<td>9%</td>
</tr>
<tr>
<td>Condition</td>
<td>6</td>
<td>5%</td>
</tr>
<tr>
<td>Sum insured</td>
<td>21</td>
<td>16%</td>
</tr>
<tr>
<td>History</td>
<td>5</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>65</td>
<td>49%</td>
</tr>
</tbody>
</table>

Reason for refusal:
- Location/address of the property.
- Risk rating of the property—for example a high exposure to cyclone.
- Condition of the property—for example it has not been repaired or maintained properly.
- Sum insured amount nominated by the consumer was too high or too low.
- The claims history of the property.
- Reason falls outside of scope or was not recorded by the insurer.

Source: ACCC analysis of data obtained from insurers.

All eight insurers supplied insurance in the Mackay postcode. However, as table 7.2 indicates, all eight insurers may not be available to every consumer in Mackay, depending on the characteristic of the consumer and their property.

We have also found that residents of offshore islands have fewer options than those on the mainland because of high cyclone exposure and the difficulty insurers would have servicing claims.82

Along with embargoes for certain areas or properties, we also continue to see insurers reduce their new business intake by increasing premiums. Unsurprisingly in Mackay, the insurer with a much higher average quoted premium for new customers has a much lower number of new business policies, as shown in figure 7.7.

Figure 7.7: Average quoted premium for new combined home and contents insurance products and number of new customers in Mackay 4740, 2018–19

Source: ACCC analysis of data obtained from insurers.

82 These include islands in the Whitsundays, Cocos Islands, Christmas Island, and Norfolk Island among others.
It is not only high risk residents in northern Australian postcodes who have fewer alternative insurers willing to supply. We have also found multiple insurers currently have in place Australia-wide embargoes or exposure limits on residents deemed to be a high or extreme flood risk. While one insurer brand also has in place an Australia-wide embargo on high bushfire risk for both new customers and renewals.

Where properties are subject to risk-specific embargoes, there may be opportunities for residents to increase the number of insurers willing to supply insurance to them by lowering their risk profile. For example, residents currently deemed high flood risk may benefit from public flood mitigation such as a levee, while consumers could lower their cyclone risk by undertaking private mitigation on their property. However, as discussed in chapter 21, insurers currently vary in how they recognise mitigation work and the impact it has on premiums.

As noted previously, challenger brands continue to increase their national market share in home and contents insurance markets. One insurer considers the prevalence of price challenger brands in insurance markets is coinciding with increasing price sensitivity in Australian households. To compete with challenger brands for these price sensitive consumers, IAG partnered with Coles insurance.

However, of the challenger brands, Hollard currently does not supply in northern Australia, Auto & General currently only supplies in Rockhampton. IAG’s Coles brand has only offered insurance to an extremely limited number of new risks in northern Australia since 2017. This indicates that many northern Australian residents do not benefit from the increased price competition these challenger brands provide elsewhere in the country.

The impact that this is having on price based competition, and insurance availability in northern Australia is discussed below.

Greater risk-based pricing increases the spread of premiums

Greater pricing sophistication and pricing to reduce concentration risk have increased the spread of premiums paid by customers of individual brands within high risk postcodes in northern Australia.83

As part of our inquiry, the ACCC obtained thousands of quotes from insurers for home, contents, and combined home and contents products and for multiple addresses. We received premium quotes from various insurers’ brands for each address for differing risk profiles using the following combination of levels: three sum insured levels, three building construction years, three construction types, two policyholder age levels, and three excess levels. We then aggregated these to produce an average quoted premium for various insurers depending on the location of the properties and their exposure to certain risks.

As figure 7.8 indicates, low risk areas in north Queensland attract lower premiums and less variation in average quoted premiums than areas with high flood or high cyclone risk. The higher variability in average quoted premiums in high risk areas could reflect insurers having different assessments of those risks, different concentration risks or stronger branding and customer inertia in these areas.

83 Chapter 4 describes how insurers set their prices taking into account these factors. The case studies in chapter 9 provide an illustration of the spread of premiums within particular areas and how this has changed over time.
In addition to the variability illustrated in this chart for average quotes, each brand would be expected to have a range of quotes across different properties. This means the range of variability in quotes overall would likely be even greater than that shown in the chart. This indicates that for residents living in high risk areas, there can be potential opportunities to switch to a cheaper alternative.

For example, figure 7.9 shows a range of quotes from various brands of insurers for a modern double brick house with a Colorbond roof for an address in Townsville. The quoted retail premiums for this property range from $2,150 to $4,871. Along with insurers having different assessments of the flood and cyclone risk to this property, insurers also have vastly different assessments of the other components of the retail premium, such as working claims costs, reinsurance costs, profit margins and the concentration risk or location of the property.

The location of the property may also result in one brand being cheaper in one area, and more expensive in another location. For example, figure 7.10 shows a range of quotes from the same brands and for the same type of property as in figure 7.9, but in Mackay (4740) rather than Townsville (4812).
In this figure, multiple brands that quoted retail premiums that were cheaper than competitors are now more expensive, and vice versa. In particular Brand 2, Brand 6, and Brand 12. This indicates that for consumers in these areas, it is worthwhile shopping around regardless of the brand’s reputation for price, as an insurer may price a property of similar characteristics very differently depending on location.

Figure 7.10: Quoted retail premium for home building products for a property in Mackay (4740), 2020

While there are potential price savings for many consumers in high risk areas if they were to switch provider, we recognise that for many specific properties, the number of brands or insurers offering coverage may be smaller and the potential gains from switching insurer may be relatively small or not exist for everyone. In addition, as noted below, it is difficult to compare offers between different insurers and this is likely an impact on consumers’ willingness to switch providers.

**Insurers avoid being the cheapest in some markets**

The unpredictability of catastrophic events means the level of risk for a particular policy is not as certain as for other types of risk and results in insurers having less confidence in their pricing models. As a result, insurers routinely monitor prices offered by other insurers for particular risks in order to avoid being the lowest priced insurer for that risk.

To do this, insurers generally obtain online quotes using automated systems that generate thousands of different quotes for a variety of different risk profiles.

The following examples show insurers increasing prices in response to movements in their competitors’ prices.

One insurer noted after introducing flood cover that ‘competitor monitoring and benchmarking will also play a key role in the defence of our existing portfolio profile’, and increased premiums in north Queensland in response to competitor flood pricing to prevent ‘negative risk selection’. Similarly, when another insurer introduced address based flood pricing, it conducted ‘competitor pricing analysis’ to review pricing in certain high risk areas and it made adjustments accordingly.

Some insurers monitor prices to maintain a market position. For example, we have seen one insurer adjust its pricing for one of its brands to maintain its position as one of the more expensive brands in north Queensland, because they saw the area as high risk. It described the strategy as a way of protecting the brand against negative selection. Since at least 2012, the insurer has made a number of adjustments to the brand’s pricing in line with its strategy to position itself as an expensive insurer in north Queensland. For example, on discovering that its pricing was very competitive in Townsville and Proserpine, it increased the rates in the region for home insurance by 45%, although price increases were capped for existing customers.
Another insurer found that after the 2010–11 Queensland floods, new business sales increased significantly, particularly in Queensland. The insurer determined that changes in its flood pricing approach were required to avoid further adverse selection. In 2012, the insurer noted that ‘North Queensland premium adequacy is positive meaning prices are above their technical rates. In September 2011 we increased rates by 30% above technical prices based on competitor monitoring and other commercial decisions.’ However, the insurer also found that it was at ‘the low end of the market’, compared to its competitors, and as a result it recommended loadings in north Queensland of 20 to 45% so that it would be at the ‘higher end of the market’.

Recently, an insurer determined that it was under-pricing high flood risks in the Northern Territory based on monitoring of competitors’ prices. It stated that, ‘[our] extremely competitive rates [are] the key driver fuelling the anti-selection for the NT portfolio. The key purpose of this price change is to realign [us] with the market.’ This led the insurer to increase prices for around 2,200 properties with the most significant increases to the high flood risk new business premiums.

On occasion, competitor modelling is used to calibrate an insurer’s own models, or where the insurer has a lack of internal historic data. For example, when discussing the calibration of its flood premium pricing model, one insurer noted that ‘given the absence of both reliable claims and industry data, competitiveness information was heavily relied upon to obtain a market view of the expected cost of flood across different levels of flood risk.’ While another insurer noted in 2013, that ‘the most obvious difference in our prices against our competitors, despite being premium adequate, is due to the lack of a more sophisticated rating engine which limits more accurate pricing.’ Based on an analysis of competitor prices, the insurer determined that it was cheaper for older homes in cyclone areas, which are generally riskier than new homes. To deal with this, the insurer increased rates for all properties in north Queensland by up to 22%.

Internal insurer documents also show that price increases from other insurers are seen as an opportunity to increase their own premiums.

**Box 7.1: Increasing premiums in response to competitor pricing**

On observing that competitors had increased premiums, senior managers at one insurer commented:

‘We’ve got so much more upside than I realised. We need to address this but we need to be careful that people don’t see it as us sneaking in further increases as part of flood…This makes me happy. I didn’t realize we had so much opportunity.’

‘I believe we need to be able to justify any increases. I can see regulators being interested and “profiteering” allegations downstream… I’m not saying don’t do it, far from it, I’m just saying lets have some good reasons including rising costs …of reinsurance, changing claims patterns and costs, reducing portfolio subsidisation blah blah.’

Overall, it appears that for higher risk areas insurers often try to avoid being the lowest priced insurer in the market, even where they have determined a technical premium based on the cost of providing the insurance.

### 7.5 Consumer switching

The ability of consumers to quickly and easily switch suppliers in response to price increases or service quality decreases is essential for effective competitive markets. Assessing the switching behaviour of consumers within markets helps determine whether consumers have ready access to acceptable substitutes for a product or service and are able and willing to switch supplier.

High retention rates are not necessarily indicative of limited competition; they may be a result of customer satisfaction and market leading offerings. However, if coupled with increasing prices and/or decreasing service quality, high retention rates may be indicative of high switching costs and lack of suitable alternatives.
There are incentives to switch but switching rates remain low

We consider there are incentives for consumers seeking cheaper premiums to search and switch to alternative insurers. However, as noted previously, depending on a consumer’s location within a postcode, risk profile, and the condition of their property among other factors, not all insurers may be available.

Insurers continually update and modify their pricing models, particularly catastrophe models which have a significant impact on premiums.

As insurers update or adjust their pricing models, this can result in different views of risk between insurers, and significant differences in the premiums that would be quoted to consumers.

For example, in 2019 one insurer updated its earthquake and cyclone modelling, which resulted in new modelled cost of cyclone and earthquake losses per $1,000 sum insured by CRESTA area. For some areas, their modelled losses reduced by up to 42%. However, for other areas their modelled losses increased by up to 49%.

For consumers living in these areas, the updated modelling may provide a potentially cheaper alternative, either by switching to or from that insurer. However, while the insurer expected reinsurance savings from this modelled change, it considered there was a need to determine if the expected reinsurance savings should be passed on to customers or retained to meet shareholder commitments.

As shown in figure 7.11 below, average quoted premiums for some areas in northern Australia can vary greatly, and for many consumers there may be a cheaper alternative available.

Figure 7.11: Average quoted premiums for new combined home and contents insurance products in select areas by insurer, 2018–19

![Average quoted premiums for new combined home and contents insurance products in select areas by insurer, 2018–19](figure)

Source: ACCC analysis of data obtained from insurers.

Some of the differences in quotes may be attributable to differences in product features, however to the extent that consumers placed a high value on certain features, we would expect that the quotes they obtained from different insurers (summarised above) would incorporate these preferences.

As discussed in chapter 10, renewing customers pay more for insurance than new customers on average across northern Australia (and the rest of Australia) even after taking sums insured into account.

Retention rates for the 2018–19 financial year indicate that switching rates remain low in northern Australia. The retention rate for combined home and contents insurance was 94% in north Queensland, 87% in the Northern Territory and 83% in north Western Australia in 2018–19.
Comparing insurance products is time consuming

For consumers seeking to switch insurers, aspects of the way insurance is sold to consumers can cause confusion and make it difficult for consumers to compare and switch. We consider a key impediment that reduces the ability of consumers to easily compare and switch is the time it takes to obtain a quote from an insurer. Surveying insurer websites, we found that for the major brands of the eight insurers currently supplying insurance in northern Australia, a consumer would need to answer at a minimum around 20 questions for one brand, up to approximately 59 questions for another, before receiving a quote. For someone comparing quotes between insurers, they could be required to input hundreds of answers to receive quotes from all available insurers in their area.

We also found that the average Product Disclosure Statement (PDS) length for a combined home and contents product is around 20,000 words and would take approximately 100 minutes to read.\(^\text{84}\) This included PDSs ranging from approximately 15,000 words (75 minutes) up to approximately 25,000 words (125 minutes).

Using quote data obtained from insurers for our case study areas, we see for each combined home and contents policy in a postcode, an average of between 1.12 to 3.4 quotes for new customers are provided, as shown in table 7.3.

---

84 Using an estimated average reading speed of 200 words per minute.
Table 7.3: Number of combined home and contents insurance new customer quotes provided compared with number of combined home and contents insurance policies by case study postcode, 2018–19

<table>
<thead>
<tr>
<th>Postcode</th>
<th>Number of quotes provided</th>
<th>Number of policies</th>
<th>Average number of quotes per policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port Hedland (6721)</td>
<td>1,346</td>
<td>396</td>
<td>3.40</td>
</tr>
<tr>
<td>Kununurra (6743)</td>
<td>802</td>
<td>546</td>
<td>1.47</td>
</tr>
<tr>
<td>Katherine (0850)</td>
<td>2,856</td>
<td>1,053</td>
<td>2.71</td>
</tr>
<tr>
<td>Alice Springs (0870)</td>
<td>7,094</td>
<td>3,497</td>
<td>2.03</td>
</tr>
<tr>
<td>Cooktown (4895)</td>
<td>471</td>
<td>421</td>
<td>1.12</td>
</tr>
<tr>
<td>Townsville (4810)</td>
<td>4,626</td>
<td>2,913</td>
<td>1.59</td>
</tr>
<tr>
<td>Airlie Beach (4802)</td>
<td>3,197</td>
<td>2,010</td>
<td>1.59</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data from insurers.

Obtaining three online quotes and reading the PDSs for three combined home and contents insurance products could take a consumer over five hours.

Consumers may use an insurance broker to reduce these search costs, but this can increase transaction costs as products supplied through a broker will generally incorporate a commission fee.

A consumer may also use a commercial comparison website to reduce search costs, but these websites only provide quotes for participating insurers and the quotes provided are indicative only. Comparison websites and broker commissions are discussed further in chapters 18 and 19.

Consumers appear reluctant to switch

While retention rates remain high, more consumers appear willing to shop around. In 2018, one insurer found shopping behaviour (not necessarily switching) had more than doubled in the last decade, and that up to 14% of its customers had shopped around but decided to renew. While other insurance brands had between 11 and 20% of their customers shop around but decide to stay with their current insurer.

However, a much greater number of customers stay with an insurer rather than switch providers. This may indicate potential alternatives are less attractive, or comparing and switching is difficult and costly. Insurers may also offer longstanding customers ‘loyalty’ discounts or ‘no claim bonuses’, which may also serve to discourage consumers from switching brands.

A strong driver behind consumer purchasing decisions appears to be brand reputation as shown by the dominance of brands linked to former state government insurers and automobile clubs. One insurer considers incumbent brands have appealed to consumers who value and trust insurance brands who they expect to pay generously at a time of claim, and are willing to pay a higher premium as a consequence. This appears to be a barrier to switching for some consumers, particularly to cheaper priced alternatives. One insurer found that for some consumers, insurers considered to be price only challengers can be perceived as too risky to switch to, despite competitive premiums. Despite this, challenger brands continue to gain national market share for home and contents insurance.

Insurers selectively target areas and consumers

In chapter 10, we find some insurers target new customers by offering a discounted premium, then increasing the premium over a number of years. This is consistent with the finding that new customers pay, on average, a lower premium than renewing customers.

However, depending on a consumer’s area or their individual risk profile, the number of insurers offering discounted premiums differs.

Insurers appear to selectively target areas. In figure 7.13, we compare average quoted premiums for new customers with average quoted premiums for renewing customers between Mackay (4740) and Moranbah (4744). Mackay is a high cyclone, moderate to high flood risk postcode. Moranbah is a low cyclone, low to moderate flood risk postcode.
Figure 7.13: Average quoted premiums for new and renewing combined home and contents insurance products in Mackay (4740) and Moranbah (4744), 2018-19

As shown above, average quoted premiums for potential new customers are much higher than average renewal premiums for all but one insurer in Mackay. The reverse is evident in Moranbah where average quoted premiums are lower than average renewal quotes. This suggests that insurers are not actively seeking to gain market share in Mackay, but they are in Moranbah. For residents in Moranbah, there are likely to be many more attractive alternative insurance product offerings to switch to than for residents in Mackay.

As noted in the first interim report, insurance markets are dynamic and insurers constantly assess their exposure to risk within their portfolios. An insurer may be actively attempting to gain market share in one area, but not in another nearby area.

In figure 7.14 below, we compare combined home and contents average quoted premiums for new and renewing customers in Cairns and Airlie Beach. For some insurers in Cairns, average quoted premiums are lower for new customers than renewing customers. However, for the same insurers, average quoted premiums for new customers in Airlie Beach are higher than renewing customers. While for other insurers, the reverse occurs.
Figure 7.14: Average quoted premiums for new and renewing combined home and contents insurance products in Cairns (4870) and Airlie Beach (4802), 2018–19

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Cairns (4870) New customer</th>
<th>Cairns (4870) Renewing customer</th>
<th>Airlie Beach (4802) New customer</th>
<th>Airlie Beach (4802) Renewing customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurer 1</td>
<td>3,000</td>
<td>2,500</td>
<td>2,800</td>
<td>2,300</td>
</tr>
<tr>
<td>Insurer 2</td>
<td>2,500</td>
<td>2,000</td>
<td>2,300</td>
<td>1,800</td>
</tr>
<tr>
<td>Insurer 3</td>
<td>2,000</td>
<td>1,500</td>
<td>2,100</td>
<td>1,600</td>
</tr>
<tr>
<td>Insurer 4</td>
<td>1,500</td>
<td>1,000</td>
<td>1,700</td>
<td>1,200</td>
</tr>
<tr>
<td>Insurer 5</td>
<td>1,000</td>
<td>500</td>
<td>1,400</td>
<td>900</td>
</tr>
<tr>
<td>Insurer 6</td>
<td>500</td>
<td>0</td>
<td>1,000</td>
<td>400</td>
</tr>
<tr>
<td>Insurer 7</td>
<td>0</td>
<td>0</td>
<td>500</td>
<td>0</td>
</tr>
<tr>
<td>Insurer 8</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

This indicates that the number of insurers pricing quotes lower for new customers than renewing customers fluctuates, and is dependent on each insurer’s assessment of risk of those consumers seeking a quote, and the insurer’s overall portfolio. This also changes from year to year. For consumers, there may be discounted premiums available that were not available the year before.

Price sensitivity and switching

The increase in market share of price challenger brands potentially indicates consumers of home and contents insurance are becoming more price sensitive and are seeking lower priced alternatives as premiums increase. One insurer found between 2017 and 2018, ‘price’ had increased to become one of the leading reasons for defection to other insurers, while all other reasons for defection had decreased over the same period.

The same insurer also found that for home insurance, three of the top four brands attracting the most customers who switched from another insurer were price challenger brands. This appears to indicate that a greater number of home and contents insurance consumers are becoming more sensitive to price. This sensitivity is understandable in the face of the significant premium increases we have observed in northern Australia over the last decade.

However, the same insurer also found some price challenger brands with a high number of customers switching in also recorded higher numbers of customers searching for alternatives or defecting to other insurers.

In 2016, a different insurer found customers who recently switch are most sensitive to a price increase, while the longer a customer’s tenure, the less price sensitive they become. As shown in chapter 10, this can result in insurers offering cheaper premiums for new customers to attract market share, and higher premiums for renewing customers once they reach a certain tenure. This is also a reason why insurers cap premium increases over multiple years to avoid significant premium increases in a short period.

To allow consumers to prepare for potential future premium rises by considering mitigation measures or searching for alternative suppliers, we recommend that insurers be required to disclose to consumers when a planned premium increase has been capped (recommendation 18.10).

After the significant catastrophic events of 2010–11, insurers reacted to perceived under-pricing in cyclone and flood exposed areas by increasing premiums significantly over a short period. As shown in figure 7.15, for postcodes selected as part of our case study areas, many consumers reacted to these premium increases by switching insurer at higher rates than previously and since. This illustrates that
consumers are more likely to be price sensitive to premium increases that are implemented quickly, rather than drawn out over a few years.

**Figure 7.15:** Average premiums for new combined home and contents insurance products and average retention rates for all insurers in northern Australian case study areas, 2008–09 to 2017–18

Source: ACCC analysis of data obtained from insurers.

We also note that consumers that are not retained may not have necessarily switched insurer. They may have moved from the area, sold their asset, or considered the price of insurance as too high and decided to not insure. As shown in chapter 12, between 2011 and 2016 there was an estimated increase in the rate of non-insurance by nine percentage points in north Western Australia and an increase in north Queensland by seven percentage points. This may partially explain the trend in retention rates in figure 7.15.

**Brand proliferation**

As discussed in chapter 2, distribution channels for insurance products can range from simple, single brand direct provision by an insurer, through to the use of a consumer intermediary arranging for insurance supplied under a brand name of an insurer intermediary.

Supplying insurance via multiple brands and intermediaries can enable insurers to target particular consumer segments with differentiated pricing and policy coverage options. This can provide another competitive dimension and may have positive outcomes for consumers. However, it also adds another level of complexity for consumers in trying to compare between different underwriters who may have vastly different views of risk. It also adds to search costs as it greatly increases the number of potential offers for a consumer to compare.

In 2018, the eight main insurers in northern Australia supplied home, contents and strata insurance through 30 brands of their own, and a further 119 insurer intermediaries. Of these, 29 insurer brands and 115 insurer intermediaries supplied home and contents insurance, as illustrated below in figure 7.16. Insurer brands and insurer intermediaries are listed in Appendix B.
Outside of northern Australia, the number of brands and insurer intermediaries is even higher, particularly via Hollard and Auto & General. One insurer notes a significant factor in their growth has been distribution partnerships and white-labelling of products to leverage the reach of other brands into new customer bases.

Multiple brands and insurer intermediaries may also result in a consumer comparing a greater number of brands but fewer insurers if they are not aware of which insurer underwrites each brand.

As shown in table 7.4, we have considered the scenario of a consumer that is currently insured obtaining three new home and contents insurance product quotes from three random brands. We estimate the probability a consumer selects three brands that are all underwritten by insurers other than their current insurer is only approximately 13%. There is also an approximately 32% probability the consumer only compares quotes between their current insurer and one other insurer.

---

85 This calculation assumes that a consumer is equally likely to select any brand (either an insurer brand or insurer intermediary), and does not take into account market shares or marketing spend. While not all brands are available in all areas, a consumer may engage in the process of obtaining a quote from these brands until the process is stopped by the insurer. In these circumstances, we consider this as obtaining a quote.
Table 7.4: Probability of three quotes being from other insurers

<table>
<thead>
<tr>
<th>Number of insurers represented (other than the current insurer)</th>
<th>Probability (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>2.1%</td>
</tr>
<tr>
<td>1</td>
<td>32.2%</td>
</tr>
<tr>
<td>2</td>
<td>52.5%</td>
</tr>
<tr>
<td>3</td>
<td>13.2%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of information obtained from insurers.

To the extent that insurers use a common pricing methodology across their brands and insurers intermediaries, the above probabilities suggest that many consumers may not be receiving as many genuinely independent quotes as they believe they are.

Ultimately, the number of insurers, brands and insurer intermediaries creates a perception that many more entities supply home, contents and strata insurance than in reality. For consumers, not knowing which insurer underwrites which brands or distributes through which intermediaries may result in a person inadvertently comparing only the brands and intermediaries of a single insurer or only a few insurers.

Obtaining and comparing quotes for insurance can be time consuming, and obtaining multiple quotes for brands using the same pricing models can waste consumers’ time and effort. Further, in areas of northern Australia where the number of insurers writing new business may be limited, it is even more important that consumers are able to easily identify meaningful alternative offers.

The ICA has developed a website that is designed to address some of these issues. Its findaninsurer.com.au website is a referral website designed to help residents find a list of insurers who are offering the product they are seeking. However, this list is not exhaustive, is updated infrequently and does not give consumers an ability to see which insurers are active in their postcode.

A requirement for insurers to regularly report on the brands they underwrite, and the locations where they are active will help address these issues. This would also build on the Productivity Commission’s recommendation in its recent inquiry into competition in the Australian financial system that insurers should provide an up-to-date list of the brands they underwrite to ASIC and that ASIC should transparently publish this information as a list on its website.

**Recommendation 7.1**

**Insurers to report their brands and where they are writing new business**

*Insurers should be required to report regularly to ASIC on the brands that they underwrite, and the postcodes in which new business has been written for home, contents and strata insurance products.*

This will provide greater transparency on which insurers underwrite which brands and assist consumers searching for alternative suppliers in their area. This would build on the Productivity Commission’s recommendation in the recent inquiry into competition in the Australian financial system that insurers should provide an up-to-date list of the brands they underwrite to ASIC and that ASIC should transparently publish this information as a list on its website. (PC recommendation 14.2)
7.6  Current state of competition in insurance markets

In summary, we consider that there are a number of factors that raise concerns about the way competition is working in some parts of northern Australian insurance markets.

First, the insurance market in northern Australia is concentrated. This is partly the result of insurers obtaining the customer bases of the former state and territory owned insurers in Queensland and Northern Territory. Due to north Queensland accounting for the large majority of northern Australia in terms of gross written premium and number of policies, Suncorp is the dominant market leader and retains the largest market share in north Queensland and in northern Australia overall. The TIO brand remains dominant in the Northern Territory. Insurance availability differs by region and risk profile. Fewer insurers participate in northern Australia, and northern Australian consumers considered higher risk have fewer options than those considered lower risk. In national home and contents insurance markets, price challenger brands continue to make gains into the market share of the large incumbents. However, northern Australian consumers do not benefit from the added price competition these brands provide.

Secondly, there has been a softening of competitive pressure for segments of markets within northern Australia. Recent catastrophes have highlighted the impact on insurers of having a large number of customers in any given high risk geographic location which, if struck by catastrophe, can result in significant claims costs. Large exposures in catastrophe-prone areas also raises costs for insurers in the form of increased prudential capital requirements and reinsurance costs. As a result, it appears that in some parts of northern Australia insurers are not actively trying to win market share. Instead, many insurers make concerted efforts to reduce their exposure to parts of those markets considered high risk. They do this by exiting segments of the market or by raising prices. Better data availability and pricing sophistication has enabled insurers to set premiums with reference to an increasing range of consumer and property characteristics. Insurers can, and do, selectively target certain locations or types of risk while not making themselves available or appearing to price themselves away from others. This can be achieved by risk-specific embargoes or by increasing premiums for certain consumers depending on their characteristics.

The unpredictability of catastrophic events means the level of risk for a particular policy is not as certain as for other types of risk and so insurers have less confidence in their pricing models. As a result, insurers routinely monitor prices offered by other insurers for particular risks with an eye to avoiding being the lowest priced insurer. Where they are the lowest priced offer they may fear that they have mispriced the risk. They then respond by raising their price. Even if an insurer believes it is in fact pricing accurately, they may still increase prices in high risk areas to reduce the chance of acquiring a concentration of high risk consumers.

Thirdly, the market has several features which make it difficult for consumers to compare offers. There are a large number of insurance products, with differences in coverage, exclusions and inclusions, excess level, type and degree of discount, and price. Price can also vary where the product is offered in a bundle. Components of coverage and exclusions are not defined in a consistent way across insurers, making comparisons difficult. Insurers offer products across a large number of brands and intermediaries, increasing the number of possible products for comparison. The use of third parties, such as insurance brokers and commercial comparison websites, to assist consumers is complicated by potential conflicts of interest (as they are commonly remunerated by the insurer) and incomplete coverage of insurers and products.

Retention rates remain very high despite incentives to switch, although price sensitive consumers appear more willing to switch. Complexity in searching and comparing insurance products between insurers is a barrier to switching, and adds to customer inertia and a reliance on familiar brands.
8. Measures to improve affordability and availability

Key points

- We investigated a range of measures that have been suggested to address acute affordability and availability issues in the supply of insurance in northern Australia.
- Our work to better define and measure the problems we have seen has not led us to believe there is currently a significant and widespread insurance availability issue. Home and contents insurance is available across nearly all of northern Australia and insurers’ products do cover the major perils typical of this region. Rather, for many households, it is more simply that the cost of the insurance is becoming prohibitive.
- We have looked at measures which have been considered previously in Australia and in other jurisdictions. There are certainly measures that could soften the affordability burden felt by local residents and property owners in northern Australia. But there is no single policy response that will resolve acute affordability issues without a significant call on public funds or cross-subsidies between consumers.
- More complex interventions we looked at, such as a government reinsurance pool and a government insurer, are not well suited to addressing affordability concerns in a targeted way. They have generally been introduced overseas in situations where insurance or reinsurance was not available through the private markets, which is not the case in northern Australia.
- Measures that would require insurers to supply higher risk customers and/or areas in proportion to their market share elsewhere through the imposition of quotas may be problematic. We do not think these measures would directly assist those consumers with higher risk properties, and typically the highest insurance premiums. Further, such measures would likely encounter a number of significant implementation challenges.
- Direct subsidies could be an effective way of relieving some of the acute insurance affordability pressures on consumers in northern Australia. These can be more targeted than other measures to address affordability issues, and are a more effective way of subsidising insurance premiums where they are high. There are some risks with subsidies, such as distorting price signals to consumers and the subsidy being absorbed over time by insurers where price competition is not strong. Careful subsidy design can help manage these risks.
- If governments want to provide immediate relief to consumers facing acute affordability pressures, they should consider targeted direct subsidies over other measures.
- We note that it is a decision for governments whether to provide subsidies, as there are many competing priorities seeking governments’ funding. Addressing acute affordability issues will, however, help to lower levels of non-insurance, which can lower costs to governments of providing post-disaster relief. It can also help support government objectives of developing northern Australia.
- While we support appropriate public investment in mitigation to protect people and their assets, we consider its potential to significantly reduce insurance premiums can be limited.
- Large scale mitigation is primarily relevant to flood, and only in certain areas. Works to reduce flood risks can have a significant downward pressure on risk levels and premiums in targeted areas, however they can also involve significant costs.
- Property level mitigation is a more effective way to address cyclone risk, but this is not always recognised by insurers and does not result in the same scale of premium reductions. Further, those most likely to experience affordability issues are less likely to be able to afford to undertake property level mitigation.
We undertook to broaden the focus of the inquiry to consider how insurance affordability and availability had been addressed both within Australia and in other jurisdictions, and whether there were any measures that could be implemented to achieve real and meaningful change for consumers in northern Australia, as a focus for our inquiry in 2019.

Focus area 1
Measures to further improve insurance affordability and availability

We will review options considered in Australia and internationally to improve insurance affordability and availability, and whether these could be applied in northern Australia.

This will enable us to present a broader range of options for governments to consider which have the potential to make a sustainable and meaningful impact on the affordability and/or availability of insurance at an acceptable cost.

This chapter presents our findings on the measures we have considered as part of this focus area. Appendix C provides further details on the approaches from Australia and overseas that we considered as part of this work.

8.1 Background

The measures we have considered

We have considered a range of measures that we identified as having the potential to improve affordability and availability in northern Australia. These were drawn from schemes used internationally and those that have been previously considered by inquiries in Australia, as well as some other measures proposed by stakeholders. These measures are:

Government reinsurance pool: A government reinsurance pool is an entity which is owned, run, funded and/or backed by government, and offers reinsurance for specific risks (usually natural catastrophes or terrorism). Under such pools, insurers pay reinsurance premiums to the reinsurance pool, retain losses up to the ‘retention limit’, and receive reinsurance cover from the pool for losses in excess of this. Reinsurance pools can lower insurance premiums, often through setting insurance premiums at a subsidised level below the technical premium, in addition to potentially improving the availability of insurance.

Government insurance pool and/or mutual: Government insurance pools and mutuals provide catastrophe insurance for certain perils, with the government retaining risk for the perils instead of the consumer’s insurer. This insurance cover is usually sold by a private insurer as part of a home insurance product (although some schemes sell directly to consumers). This way the government insurance pool retains the risk for the particular peril(s), while the private insurers retain the risk for all other events. A government insurance pool or mutual can be very similar to a government reinsurance pool, because in both cases the government takes on the risk for a particular peril(s). However, because a reinsurance pool provides reinsurance and not insurance, it does not always
cover the entirety of the risk, and it is more removed from the retail premium charged to the consumer. For simplicity, we will refer to government insurance pools and mutuals collectively as ‘government insurers’ in this chapter.

- **Direct subsidies, rebates and concessions**: These are the use of direct subsidies, concessions or rebates to consumers to reduce the cost of insurance, often subject to eligibility criteria such as household income and/or premium levels. Subsidies, concessions and rebates can be administered through insurers, or directly with consumers. For simplicity, we will refer to these collectively as ‘subsidies’.

- **Government mitigation and resilience programs**: These are programs where governments fund, or otherwise encourage, public (i.e. community level) or private (property level) mitigation or resilience works. Mitigation works can increase the resilience of properties and reduce the risk of damage from a natural disaster event. This reduction in risk can lower the technical premium of the insured, and in a competitive market will result in lower premiums in both the short and long term. For simplicity, we will refer to these collectively as ‘mitigation programs’.

- **Licence or authorisation conditions**: This is the use of an insurance licence or authorisation condition which makes it compulsory for insurers to supply in all parts of Australia, or to provide a minimum number of policies (or hold a minimum share of the market) in northern Australia and/or catastrophe-prone regions. This has been proposed in submissions to our second update report as a potential measure.

Finally, a number of submissions recommended measures that have the potential to address longer term affordability and availability issues. The two main areas proposed are:

- **Improved building standards**: More stringent building standards can improve the resilience of buildings in many different ways. In particular, they can reduce the potential damage to a building and its contents from natural catastrophes and other severe weather events. However, improved building standards can also increase building costs (for new buildings and the repair or renovation of existing buildings).

- **Reforms to land use planning**: The construction of new homes or strata complexes on land that is subject to high or increasing peril risks can lead to significant insurance affordability and availability issues. Measures to better factor insurance and insurability consideration into land use planning could assist in reducing these issues.

We have not considered either of these two measures in this chapter. This is because, while important, these measures are not immediately relevant to the affordability and availability for current buildings and contents insurance products in northern Australia. However, we acknowledge the importance of these two areas for the future affordability and availability of insurance in northern Australia, and consider building standards in chapter 13, and land use planning in chapter 14.

**Our approach**

In order to consider whether any of the above measures will effectively address insurance affordability and availability issues in northern Australia, we have first assessed the scale of these issues in northern Australia (see section 8.2 below).

We then consider each measure in turn (in sections 8.3 to 8.7). In doing so, we acknowledge that a number of previous inquiries have considered some of the measures we are considering in this chapter. Where relevant, we have reviewed the findings of previous inquiries into northern Australian insurance markets, and their assessment of the various measures we are considering. We consider that our findings build on these previous considerations, but differ as we have been able to consider more detailed information than has been available to previous inquiries. This is both due to the length of the inquiry, which has allowed us to consider many issues in detail, but also as we have been able to obtain a significant volume of information from insurers using the information gathering powers set out in the *Competition and Consumer Act 2010* (Cth). Access to more detailed information on the scale and causes of insurance issues, and the way that insurance and reinsurance markets are operating, puts us in a unique position to consider the effectiveness of each of the measures we have examined.
In assessing the scale of issues in northern Australia, and in our consideration of some measures, we have relied on information obtained from insurers and 2016 Census data available from the Australian Bureau of Statistics (ABS). Data obtained from insurers includes individual policy data in the case study areas which enables us to undertake more detailed analysis in these areas, such as considering how premiums compare to sum insured amounts.\(^{88}\) We have also considered data from insurers that has been aggregated for each postcode to enable us to consider averages across regions. We have used gross weekly household income data from the 2016 Census. This has allowed us to consider household incomes in assessing the scale of issues in northern Australia and potential costs of implementing different measures. In using household income data, we have only considered households that are occupied private dwellings, a separate house, and either owned outright or owned with a mortgage, as we consider this is most likely representative of households with home insurance or combined home and contents insurance products.

In addition to information obtained from insurers, we have also looked at schemes that have been implemented both in Australia and internationally, considering why they were introduced, their design, and how effective they have been. Where especially relevant, these schemes are noted throughout the chapter, while a summary of the international measures is provided in appendix C.

In the second update report we invited submissions on measures to improve affordability and availability of insurance in northern Australia. We sought views on a range of specific questions including the key advantages and disadvantages of measures, how they should be structured, possible costs, funding arrangements and the potential impact of the measures. We draw on stakeholder submissions in considering each measure below.\(^{89}\)

We then set out our views on each measure, taking into account our more detailed understanding of the nature and causes of affordability and availability issues in northern Australia. In making this assessment, we have considered the potential for measures to lead to improved affordability and/or availability, the potential costs of the measure, and the impact that it could have on the insurance market. Our findings are summarised in section 8.8.

### 8.2 The scale and causes of affordability and availability issues in northern Australia

We have estimated the extent of (and reasons for) non-insurance in northern Australia (chapter 12) and the level of premiums paid by consumers in northern Australia (through looking at the distribution of premiums in chapter 3). This analysis has allowed us to gain a more detailed picture of the nature of affordability and availability issues in northern Australia.

Further, we have gained a more detailed understanding of the factors driving higher insurance premiums in northern Australia by considering:

- adjustments insurers make to technical premiums to arrive at retail premiums (chapter 10)
- the costs of supplying insurance, in particular the cost of claims (chapter 5)
- how insurers set premiums (chapter 4)
- competition in insurance markets (chapter 7)
- reinsurance arrangements (chapter 5).

This has included considering the extent to which affordability and availability issues stem from market failures, other impediments to robust competition or underlying cost drivers. Without market failure, government intervention to reduce premiums may still be justified on social equity grounds or in support of broader policy objectives. The nature of the problem will in turn affect the suitability of various measures.

\(^{88}\) We obtained policy-level data from a number of areas throughout northern Australia and presented these as case studies in chapter 9.

A more detailed understanding of the scale and causes of affordability and availability issues has allowed us to consider the potential benefits and drawbacks of the measures we have examined here.

**Availability of insurance**

We have found that there did not appear to be significant insurance availability issues in northern Australia. We observed that insurance markets were more concentrated in northern Australian regions, and that in some circumstances insurers placed embargoes on writing new business in certain postcodes. However, we also saw that home and contents insurance could usually be purchased through at least four insurer brands, and often many more, across northern Australia.

Our analysis of insurers’ information indicates that in some circumstances insurers do not offer insurance cover for properties they assess to be high flood risk. In some cases insurers have continued to renew policies for existing higher flood risk customers but will not offer cover to new high flood risk customers. One insurer will provide cover to their own mortgage customers regardless of the flood risk of the property. However, such embargoes are not used by all insurers, and insurance for high flood risk customers is still available. We did not see embargoes used to the same extent for high risk cyclone properties across all of Australia. One insurer currently has an embargo on providing cover to properties in high cyclone risk areas that are not built to cyclone standards.

Sometimes embargoes have been applied only to high risk properties in a particular area, often to reduce exposure in these areas, rather than applying embargoes to all higher flood or cyclone risk properties. These embargoes have sometimes been lifted by insurers when concentration risk or exposure in the area decreases. We have also seen that some insurers have ceased offering cover for properties in northern Australia through certain brands or will only renew existing cover in the area. However, in these cases the insurers still offer insurance coverage through other brands.

Insurers often embargo offshore islands, due to difficulty servicing claims in these remote areas rather than because of high catastrophe risk alone. In some cases, previous embargoes over these areas have been removed after the application of an additional location excess.

Most insurers have also indicated that they do not use express exposure limits which cap the volume, or proportion, of customers or sum insured in a particular area. One insurer noted it previously limited exposure in certain areas by applying a limit on total sum insured but it withdrew this in 2015. The extent to which insurers’ level of exposure affects their premiums is considered in further detail in chapter 10.

We also saw that insurance cover, including cover for cyclone and flood, is generally available from multiple private insurers across northern Australia. While in some higher risk areas there may be fewer suppliers, it does appear that insurance can be obtained in all postcodes where residential dwellings are located (this is discussed in detail in chapter 7). As shown in table 8.1, during 2018–19 there were only five postcodes where there were no insurers supplying insurance products in northern Australia. Four of these postcodes are islands off the coast of north Western Australia (but which fall within northern Australia). These islands are currently, or have previously been, predominantly mining areas and have few residential buildings located on them. The fifth is Telfer, a mining site in the Pilbara region of Western Australia.

---

90 Each insurer has their own risk ratings and therefore will differ in their views of which properties are high risk.

91 Our analysis does not include the Cocos Keeling Islands and Christmas Island as they are not within the definition of northern Australia and are therefore outside the scope of our inquiry. However, we are aware of supply difficulties in these areas.
### Table 8.1: Number of insurers supplying home, contents, or strata insurance products in northern Australian postcodes, and percentage of population living in those postcodes, 2018–19

<table>
<thead>
<tr>
<th></th>
<th>North Western Australia</th>
<th>Northern Territory</th>
<th>North Queensland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of insurers supplying insurance</td>
<td>Number of postcodes</td>
<td>Percentage of north Western Australian population</td>
<td>Number of postcodes</td>
</tr>
<tr>
<td>0</td>
<td>5</td>
<td>2.54</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>0</td>
<td>0.00</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>1.52</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>0.25</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>1.23</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>22</td>
<td>88.43</td>
<td>31</td>
</tr>
<tr>
<td>7</td>
<td>1</td>
<td>6.02</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>0</td>
<td>0.00</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers and 2016 ABS Census data.
Note: Population figures are for 2016.

In summary, while there are sometimes fewer insurers, or insurance brands, supplying insurance to customers with high risk properties, it appears that insurance is generally available throughout northern Australia but this often comes at a significant cost.

### Affordability of insurance

Estimating the scale of affordability issues can help inform governments on if, and to what extent, any intervention may be required to address the cost of insurance. As noted above, we have found that insurance premiums are higher in northern Australia no matter how measured. We also found that they had increased to a greater extent in northern Australia than other parts of the country. In this section we consider the scale of premiums in northern Australia in more detail, and a number of ways that the affordability of insurance in northern Australia could be considered.

While premiums in northern Australia are higher than they are in the rest of the country, the affordability of insurance is not only based on the size of retail premiums. Other factors must be considered in assessing affordability, which will vary from one consumer to the next. Affordability also depends on household income and other living costs. Affordability of insurance is also informed by an individual’s willingness and ability to purchase home insurance, including the value that an individual places on insurance. Some may not value insurance highly enough to justify paying the quoted premium, while others will regard home insurance an essential service. For those with a mortgage or in a strata complex, insurance can be a mandatory requirement.

The following considers the affordability of insurance in northern Australia, based on methodologies used in other jurisdictions and industries to consider similar issues.

#### Considering premiums as a percentage of the sum insured

One way in which the affordability of insurance has been considered in other jurisdictions is comparing the retail premiums to the sum insured under an insurance policy. Often, premium affordability is considered to be an issue where the premium exceeds 1% of the sum insured. While this approach factors in the insured value of property, we note that sum insured in northern Australia can be higher than in other parts of Australia, because of higher building costs caused by remoteness and, in some cases, more stringent building standards. We have seen that when the sum insured is increased...
premiums generally do not increase by the same proportion (as discussed in chapter 3). This may mean that this measure underestimates affordability issues in northern Australia compared with other parts of the country where building costs are lower.

We have considered how many policies would meet this criteria in northern Australia by considering average premiums and sums insured across all postcodes in northern Australia, as well as more detailed data in the case study areas.

**Average premiums across northern Australia**

Across northern Australia, for combined home and contents insurance products, the average premium is greater than 1% of the average sum insured in only one small area (Roebourne, 6718). For the majority of northern Australian postcodes, the average premium is between 0.2% and 0.5% of the average sum insured in their area, and there are only a small number (11 of 187 postcodes) where premiums are over 0.7% of the sum insured. This is illustrated in figure 8.1 below.

![Figure 8.1: Number of northern Australian postcodes by brackets of average premium as a percentage of average sum insured, for combined home and contents products, 2018–2019](image)

Looking more closely at individual retail premiums in the case study areas shows that while average premiums for most areas in northern Australia are below 1% of the average sum insured, many consumers do pay premiums which are greater than 1% of their sum insured, as discussed below.

We also note that, as discussed in chapter 3, the average of individuals' premium per sum insured ratios is generally higher than the aggregated ratio of average premium per average sum insured. This suggests that were we to consider the average of individuals' premiums per sum insured, we may see this 1% threshold met more often.94

**Premium distribution in the case study areas**

As we have more detailed data in the case study areas, we have been able to consider the proportion of policies in these areas which have premiums that are greater than 1% of the sum insured. We have seen that for home, contents and combined home and contents insurance this varies between regions. However, the proportion is generally higher in northern Australian case study areas than in the areas outside of northern Australia (Goulburn and Roma).95 This is illustrated in figure 8.2 below.

---

94 We were only able to calculate the average of individuals' premiums per $1,000 sum insured in the case study areas, and not the regions outside of northern Australia.

95 The exception to this is Alice Springs where premiums are greater than 1% of the sum insured for 0.44% of combined products, and 0.82% of building products.
Approximately 40% (or around 560) of combined home and contents policies supplied in the Port Hedland region have premiums that are greater than 1% of the sum insured. Across all northern Australian case study areas, 7.9% (around 4,750 policies) of combined home and contents policies have premiums of greater than 1% of the sum insured value. While we have only done this for a selection of postcodes, based on average premiums in the regions we have considered, we think that there would be many other areas with comparable affordability issues. Whereas in Goulburn, 0.14%, or just 9 combined home and contents policies had premiums that were greater than 1% of the sum insured. Further, it also appears that affordability is a greater issue for home insurance than combined home and contents insurance when using the 1% of sum insured measure.

Overall, these figures suggest that affordability may be a concern for a consumers across a number of regions in northern Australia, but is more significant in Port Hedland. However, while considering premiums as a percentage of the sum insured enables a simple assessment of affordability issues, it does not take into account household income, assets or other household expenditure. This may result in property owners with high weekly household income being considered as experiencing affordability issues, even though this is unlikely to be the case. We have considered this further in the discussion below.

**Contents insurance**

For contents insurance products, the proportion of policies which have premiums greater than 1% of the sum insured is much higher as shown in figure 8.3 below.
Across all of northern Australia, the proportion of contents policies with average premiums that are greater than 1% of the average sum insured is also higher than for combined home and contents insurance and home insurance policies.

Premiums per sum insured are on average higher for contents insurance than home building insurance and combined home and contents insurance throughout Australia. However, annual contents insurance premiums are considerably lower than home insurance or combined home and contents insurance premiums. For example, in north Queensland in 2018–19, contents insurance was on average $550 per year, compared with $2,470 for combined home and contents insurance. As a result, contents insurance is less likely to create the same affordability issues for consumers as home insurance or combined home and contents insurance and using premiums over 1% of sum insured is a less useful measure of affordability for contents insurance.

After considering the affordability of strata insurance in the next section, the remainder of this chapter primarily considers the affordability of home insurance and combined home and contents insurance,
rather than contents only products. We nevertheless recognise that contents insurance can also present affordability issues for some consumers, particularly renters.

**Strata insurance**

Based on premiums per sum insured, the proportion of strata products with significant affordability issues is lower than for home and contents insurance, as shown in figure 8.5 below. However, there are still a proportion of policies in all areas where there may be affordability issues. Kununurra and Port Hedland have the highest proportion of strata properties with premiums greater than 1% of the sum insured. However, we note that there are few strata properties in the areas.

![Figure 8.5: Proportion of strata policies with premiums greater than 1% of the sum insured in the case study areas, 2018–19](image)

Source: ACCC analysis of data obtained from insurers.  
Note: Katherine and Cooktown do not have any strata policies with premiums greater than 1% of the sum insured and are not shown in this figure.

Overall premiums for 1.33% of strata insurance policies in the northern Australian case study areas are more than 1% of their sum insured. This is comparable with figures for strata properties in the Roma and Goulburn case study areas. This would suggest affordability issues for strata insurance as a category are not as pronounced as those for home insurance.

The remainder of this chapter primarily considers the affordability of home insurance and combined home and contents insurance, rather than strata insurance products. We nevertheless recognise that strata insurance can also present affordability issues for many residents in northern Australia. As detailed in chapter 16, strata insurance affordability and availability can differ considerably based on the location and characteristics of the strata property.

**Considering consumers’ income**

As noted above, the affordability of insurance can depend on a consumer’s income and looking only at premiums alone is not sufficient to make an assessment of the scale of affordability issues in northern Australia. There are a number of ways that income levels can be considered in examining insurance affordability.

Eligibility for some forms of government assistance are based predominantly on a person’s income, such as private health insurance rebates or the Child Care Subsidy. For example, individuals with a gross annual income of less than $90,000 a year can access the maximum private health insurance rebate of up to approximately 33%, depending on their age, to help cover the cost of their premiums. People who earn more than this can also access the rebate, but the level of the rebate decreases as income
In northern Australia approximately 37% of households living in privately owned and occupied separate house properties had income levels below the Child Care Subsidy lower income threshold in 2016. The proportion of households meeting this criteria varies greatly between regions, as shown in figure 8.6.

Figure 8.6: Estimated proportion of households in northern Australia with weekly household incomes below the Child Care Subsidy lower income threshold, 2016

Source: ACCC analysis of 2016 ABS Census data.
Note: This figure is limited to households that are privately owned and occupied separate house properties.

However, consistent with our view on considering only premium levels, we do not consider that looking at income levels only is the best approach to considering insurance affordability in northern Australia. It does not take into account a household’s current insurance premium and can potentially exclude households with a weekly income above the threshold, but who face insurance premiums that once paid, significantly reduce their weekly household income. Similarly, it would capture some households with relatively low income levels but also a low insurance premium.

For example, as shown in figure 8.7 below, median household income in the case study areas is generally close to the all of Australia median, although there is variation. The exception to this is Port Hedland where the median household income is over twice the median in the rest of Australia. This suggests that affordability issues may be less common among residents in this area. However, Port Hedland also has the highest percentage of home and contents insurance policies with premiums that are more than 1% of the sum insured which suggests affordability may be an issue. This emphasises the importance of considering both income and premiums when considering affordability.

---


Figure 8.7: Weekly median income and proportion of combined home and contents insurance policies with premiums greater than 1% of the sum insured, in a selection of the case study areas, 2016, real $2018–19

Source: ACCC analysis of data obtained from insurers and 2016 ABS Census data.

Considering both premiums and income levels

One way income can be considered in determining the affordability of premiums is by considering insurance premiums as a proportion of a household’s income. A similar approach is used to determine eligibility for some types of financial assistance in other jurisdictions. For example, in the United States, a job-based health care insurance plan is considered affordable if it costs less than 9.86% of the employee’s total household income.\(^{98}\) Similarly, others have considered insurance to be ‘unaffordable’ where the premium is greater than 1.5 to 3 weeks of a household’s annual disposable income (depending on socio-economic index area).\(^{99}\) These approaches enable an assessment of both a household’s insurance premium and its income to determine affordability.

We have considered the level of affordability in the case study areas and across northern Australia using a similar approach, by estimating the proportion of households in privately owned and occupied separate houses, where the average premium for the area is greater than 2 or 3 weeks gross household income, as shown in figures 8.8 and 8.9 below. We note that using the disposable income, rather than gross income, would increase the number of eligible households, as would considering a threshold based on 1.5 weeks of gross household income.

We have found that average annual premiums in each case study area for combined home and contents products exceed 2 weeks of (gross) household income for approximately 37% of privately owned and occupied separate houses in our northern Australian case study areas. This varies by area, with Cooktown, Townsville, and Port Hedland postcodes having the greatest affordability issues when considered in this way.

---


Chapter 8: Measures to improve affordability and availability

Figure 8.8: Estimate of the proportion of households for which the average combined home and contents insurance premium for the area is greater than 2 and 3 weeks gross household income, in a selection of the northern Australian case study areas, 2016

Source: ACCC analysis of data obtained from insurers and 2016 ABS Census data.
Note: The above does not compare actual income figures of households with the actual premiums from the households. Instead it compares household income levels from 2016 ABS Census data to the average premium in the postcode. This figure is limited to households that are privately owned and occupied separate house properties.

Looking across all of northern Australia, we have found that in 2016 (when the last census was conducted), average annual premiums across all of northern Australia (not shown below) for combined home and contents insurance products exceeds 2 weeks of gross household income for approximately 37% of privately owned and occupied separate houses. The trends for each region are shown in figure 8.9.\(^{100}\)

Figure 8.9: Estimated proportion of households for which the average combined home and contents insurance premium for the region is greater than 2 and 3 weeks gross household income, in northern Australia, 2016

Source: ACCC analysis of data obtained from insurers and 2016 ABS Census data.
Note: The above does not compare actual income figures of households with the actual premiums from the households. Instead it compares household income levels from 2016 ABS Census data to the average premium in the postcode. This figure is limited to households that are privately owned and occupied separate house properties.

\(^{100}\) We note that using average premiums is an approximation, and an individual household’s premium can differ significantly.
Of course, the proportion of households considered to have affordability issues will vary significantly with the threshold selected. As shown above, using a 3 week (instead of 2 week) threshold suggests a significantly smaller number of consumers are experiencing affordability issues. The figure also suggests that affordability concerns exist across all of Australia to some extent, but that these are more significant in north Western Australia and north Queensland.

While this approach considers both premiums and income, it does not take into account a household’s other expenditures, including other housing costs (such as property taxes and mortgage payments) or other forms of insurance (such as health and motor insurance), or other factors which may be relevant to eligibility, like asset tests. Even where other expenditures are factored into a measure of ‘affordability’, it may not be equally applicable across income levels.¹⁰¹

**Levels of non-insurance**

Another important aspect of assessing the scale of affordability issues in northern Australia is the proportion of homes that are not insured in the area (the level of non-insurance). The higher the rate of non-insurance the more likely that affordability is an issue in the area.

As discussed in chapter 12, using our Census-based approach, we have estimated the rate of home non-insurance in northern Australia to be around 20%. This means around 86,000 properties were without home insurance in northern Australia in 2016. North Western Australia’s estimated rate of non-insurance was the highest at 40%, followed by the Northern Territory at 26% and north Queensland at 17%. This compares to a rate of non-insurance in the rest of Australia of 11%. This again suggests that affordability is a concern for many in northern Australia.

While non-insurance can be a strong indicator of affordability issues in a region, we note that not all consumers who decide not to insure do so because insurance is unaffordable. This is because not all consumers place equal value on purchasing home insurance.¹⁰² They may consider their property is sufficiently protected against risks, or prefer to self-insure. The important distinction is their choice is not determined by affordability concerns. Furthermore, the scale of premium reductions required to reach their level of willingness to pay could significantly differ between individuals. For some, any price for insurance may be beyond their willingness to pay.

Considering non-insurance rates also does not consider those who make standard of living sacrifices to purchase home insurance, or those who deliberately underinsure to reduce premiums which can potentially result in negative outcomes similar to non-insurance. These people may still consider the cost of insurance (or adequate insurance) as unaffordable.

**Conclusions on affordability**

Considering the above, there are real affordability issues for a proportion of northern Australian residents. However, the extent of these issues is greatly impacted by the approach used to measure affordability.

We have considered affordability using a number of approaches to provide a more detailed picture on the scale of affordability issues in northern Australia. While each approach has its shortcomings, the analysis above shows that a not insignificant proportion of consumers in northern Australia are facing significant insurance affordability challenges. Further, we note that the apparent rising level of non-insurance in northern Australia also suggests that affordability issues are a growing concern.

---

¹⁰¹ To account for this, the Australian Housing and Urban Research Institute (AHURI) commonly uses the 30:40 indicator for assessing housing affordability stress. The 30:40 indicator identifies households as being in housing affordability stress when the household has an income level in the bottom 40% of Australia’s income distribution and is paying more than 30% of its income in housing costs. This enables an assessment of housing costs contributing to affordability issues to be targeted to lower income households.

¹⁰² In chapter 12, we also discuss the results of research we undertook to better understand why some consumers are choosing not to insure. Over 95% of respondents to our survey without home insurance attributed this to cost (52% said they couldn’t afford it and 52% couldn’t justify the cost). The third most common reason was a low perception of risk, indicating affordability is not the only consideration, although it is the dominant one.
The causes of affordability issues in northern Australia

The above indicates that the key problem in the supply of insurance in northern Australia is affordability and not availability, and the private market appears to be working to supply consumers in the area. Nevertheless, measures may still be justified on social equity grounds or in support of broader policy objectives, including ensuring a strong and prosperous northern Australia. How effective a measure will be at addressing the affordability problem depends on the factors that are contributing to the level of premiums.

As discussed in detail in chapters 4 and 10, we have found that:

- across a large part of northern Australia, cyclone risk is high, and this contributes to higher premiums for many in northern Australia
- flood risk is also a contributor to higher premiums, but for a smaller proportion of consumers in northern Australia
- other aspects of the technical premiums, such as reinsurance, commission and working claims costs, can also be higher in northern Australia, but this varies across the region. As shown in chapter 6, estimated insurer profitability in northern Australia has been poor
- premium adjustments can increase premiums in northern Australia. Insurers are free to make these types of adjustments, and they are made for sound commercial reasons, however they can add to affordability issues. We also found that at least some of these adjustments could be reduced via improved competition and consumer understanding.

For any of the measures we are considering to lead to lower premiums in northern Australia, they would need to address one of the drivers above. However, the exceptions to this are government subsidies which can be used to directly reduce premiums, but not their underlying cost drivers.

We discuss these issues in more detail in our assessment of each of the measures below.

8.3 Government reinsurance pools

Background

Government reinsurance pools are reinsurers that are owned, run, funded and/or backed by the government, offering reinsurance for particular types of risks including, in this case, natural catastrophes. In a reinsurance pool, insurers pay to access the reinsurance pool, retain losses up to a specified amount (retention limit) and receive cover from the pool for losses in excess of the retention limit.

There are a number of elements of the design of a reinsurance pool which could impact how effective such a pool would be in northern Australia, these include:

- **The risks or perils covered**: This includes the types of perils covered by the pool, and the level of risk covered (e.g. the pool could only cover high risk perils).
- **The geographic coverage**: This is the area which could be covered by the pool, and in this case could be all of northern Australia, high risk areas of northern Australia, or it could apply to the whole of Australia for the specified perils. The larger the geographic coverage of the pool, the greater the number and diversity of risks in the pool.
- **Compulsory or voluntary participation**: Internationally we have seen that some schemes make purchasing reinsurance from a government pool compulsory, while others make this voluntary. Where participation is compulsory a wider range of risks are generally captured by the pool (i.e. not just the highest risk policies). Where participation is voluntary, insurers will generally only purchase

---

103 Flood Re is an example of voluntary participation where insurers choose what risks to cede to the pool. See: [https://www.floodre.co.uk/faq/is-flood-re-bringing-the-price-of-insurance-down-for-those-at-risk-of-floods/](https://www.floodre.co.uk/faq/is-flood-re-bringing-the-price-of-insurance-down-for-those-at-risk-of-floods/), viewed 27 October 2020.

reinsurance from the pool if it is not otherwise available or where it is more expensive on the private market.

- **Level of coverage under the scheme:** Reinsurance pools can be designed with different retention levels (i.e. the level of risk retained by the insurer) and coverage limits. A government reinsurer can accept all the risk for specified perils, while others may require insurers to retain some of the peril risk. The greater the amount of risk ceded to the pool, the more influence the government reinsurer will have on premiums.

- **Funding and use of government guarantee:** There are a number of ways that a government reinsurance pool could be funded. Government reinsurers are often funded by reinsurance premiums, but where these are subsidised in some way, other funding (either directly from government, or via industry or customer levies) may also be used. Further, governments may support the ongoing operation of a reinsurance pool by providing a guarantee where the pool is unable to meet its obligations.

- **How premiums are set:** A government insurer can either set risk based premiums, at the technical level to reinsure properties, or it can subsidise premiums, either by providing discounted premiums, or by charging flat rates across all premiums for all risks, which would introduce a level of cross-subsidy across the pool.

In this section we have considered a government reinsurance pool that would provide catastrophe reinsurance for cyclone and/or flood perils, for home, contents and strata insurance.

**Previous consideration**

Government reinsurance pools are a measure which has been previously considered as an option to lower insurance premiums in northern Australia.

The 2011 Natural Disaster Insurance Review (NDIR) recommended an excess of loss reinsurance pool for flood risks to provide more affordable flood cover through reinsurance for all ceded risks. The NDIR considered that some form of premium discount was required to make flood insurance affordable, and a pool would minimise cross-subsidisation between policyholders. A pool would also require the insurers to still hold onto some parts of the flood risk themselves.\(^{104}\)

The 2015 Northern Australia Insurance Premiums Taskforce (NAIPT) considered running an excess of loss reinsurance pool for cyclone risks to be run by the Australian Reinsurance Pool Corporation (ARPC) and backed by government guarantee. The pool design was for insurers to retain the cost of claims for smaller events but with the pool meeting claims above a limit. The NAIPT pool would price reinsurance premiums on the basis of risk, but with lower rates due to a government subsidy.\(^{105}\)

The NAIPT considered that the pool would increase competition in the cyclone insurance market as the pool would be accessible to all companies and would not crowd out private insurers unlike the government mutual plan also being considered. The NAIPT noted that while a partially funded reinsurance pool would reduce premiums by 10 to 15%, the potential call on the government guarantee would be up to $5 billion over a 10 year period. The NAIPT noted that a reinsurance pool would be more feasible for a government exit compared to the government mutual plan, with support gradually reduced through insurers bearing more cyclone claims costs over time. Eventually cyclone risks would return to the private catastrophe reinsurance market.

The Australian Government responded in December 2017 noting that it ‘will not intervene directly in the insurance market.’\(^{106}\)


Stakeholder views

Various stakeholders supported the introduction of a reinsurance pool. Insurers and the Insurance Council of Australia (ICA) made submissions opposing the introduction of one.

Strata Insurance Solutions stated that 'a government led reinsurance option is the most viable solution' to address affordability issues and would be best achieved by extending the jurisdiction of the ARPC to cover cyclone perils, and possibly flood and storm surge perils. They submitted that such a scheme will reduce the effect of risk selection by insurers and spread the peril risk across a wider set of policy holders; and the scheme should apply Australia wide, be mandatory, and be funded by a levy similar to the ARPC terrorism model.\(^{107}\)

Consumer advocate Margaret Shaw also supported a reinsurance pool for cyclone perils, and possibly all natural disaster perils and submitted that the scheme should be designed to cover claims beyond a stipulated amount and it should be limited to existing properties, not new developments.\(^{108}\) Similarly, Manning and Salveson supported the introduction of a reinsurance pool for cyclone and riverine flood to cover higher layer excess of loss claims.\(^{109}\)

Submissions from the Greater Whitsunday Alliance (GW3) and Regional Development Australia Mackay-Isaac-Whitsunday (RDA-MIW), the Strata Community Association (SCA), and the Strata Community Association Queensland (SCA (Qld)) supported a reinsurance pool on the basis that it would provide equitable coverage for all Australians and to provide certainty for industry.\(^{110}\) Mr George Christensen MP also considered a reinsurance pool a reasonable option to lower the burden of insurance premiums in disaster-prone areas.\(^{111}\)

Legal Aid Queensland did not consider a reinsurance pool to be the best option, but stated that if it were implemented it should apply Australia wide and offer coverage for fire, flood, and cyclone perils.\(^{112}\)

The Actuaries Institute encouraged a deeper review of global examples of pools and mutuals, and said any scheme should promote competitive market based pricing as much as possible. Further, any solution should be considered on a national basis, as the insurance market is a national one.\(^{113}\)

The majority of the insurance industry opposed the introduction of either a mutual or reinsurance pool. The ICA, RACQ, IAG and Suncorp all submitted that these options would not address the underlying issue of high risk, with each identifying several other downsides of the schemes. The ICA and Suncorp submitted that these schemes would not substantially reduce premiums without a significant government subsidy, would discourage mitigation by obscuring the pricing signals, and are very difficult for the government to withdraw from. The ICA and Suncorp also submitted that these schemes would not deliver a sustainable reduction in premiums.

Additionally, the ICA, Suncorp, and IAG noted that international comparable schemes were introduced following a market failure resulting in a lack of availability for insurance and that these conditions are not present in northern Australia as insurers are still willing to price the risk. RACQ submitted that a reinsurance pool would have higher administrative costs than the ARPC due to the higher volumes of expected claims, and funding a pool through a levy could result in unintended higher costs in northern Australia. Suncorp also argued that a pool or mutual would remove risk diversification benefits from insurers portfolios, and would actually be more expensive than a national all peril insurer. Further,

\(^{107}\) Strata Insurance Solutions submission to the NAIi second update report, p. 1.
\(^{108}\) Margaret Shaw submission to the NAIi second update report, p. 4.
\(^{109}\) Dr Allan Manning and Max Salveson submission to the NAIi second update report, p. 33. In excess of loss reinsurance, losses over a certain amount can be divided into layers. For example, an insurer may retain responsibility for losses up to $250 million. Losses above this amount may be the responsibility of one or more reinsurers under subsequent reinsurance layers, for example, from $250 million to $300 million, from $300 million to $350 million and so on.
\(^{110}\) Greater Whitsunday Alliance and Regional Development Australia Mackay-Isaac-Whitsunday (GW3 and RDA-MIW) submission to the NAIi second update report, p. 1; Strata Community Association Queensland (SCA (Qld)) submission (part 2) to the NAIi second update report, p. 9.
\(^{111}\) George Christensen MP submission to the NAIi second update report.
\(^{112}\) Legal Aid Queensland submission to the NAIi second update report, p. 2.
\(^{113}\) Actuaries Institute submission to the NAIi second update report, p. 2.
Suncorp submitted that a pool or mutual would also increase handling costs due to duplication and could result in potential consumer confusion at the point of purchase and in claims handling.\textsuperscript{114}

Conversely, Allianz submitted that a reinsurance pool subsidised by the government is needed to deliver affordable home insurance to high risk properties in northern Australia as current premium levels do not provide an effective price signal and are instead generating an incentive for non- or under-insurance. Allianz argued that a reinsurance pool would be the best way to subsidise premiums while maintaining a balance between the appropriate price signal and affordability. Allianz also stated that an effective market failure exists if insurance is unaffordable to those who wish to purchase it.

Our views

Based on our analysis of insurers’ information, and our discussions with insurers, reinsurers and reinsurance brokers, we do not consider that there are clear problems in the supply of catastrophe reinsurance for northern Australia. Further, the level of premium reductions that would result from a government reinsurance pool in the absence of subsidised premiums is uncertain. As a result, we do not consider that a government reinsurance pool would be an effective way to address affordability issues in northern Australia at this time. Our reasons for this are outlined below.

A government reinsurance pool is not required to address issues in the reinsurance market or with the availability of insurance

Reinsurance plays an essential role in enabling the supply of insurance to consumers in northern Australia, as it allows insurers to protect themselves from large losses from natural catastrophes. Internationally government reinsurance pools have generally been introduced where there is a failure of private markets to provide reinsurance, or where insurers are not providing insurance coverage.\textsuperscript{115} We have not seen these issues in Australia.

Availability of reinsurance in Australia

Based on the information available to the inquiry there do not appear to be issues with the availability of reinsurance to cover natural catastrophes for home, contents or strata insurance in Australia. There are a number of reasons we have reached this conclusion.

First, it does not appear that industry considers there to be an issue in the supply of catastrophe reinsurance in northern Australia. Insurers have not raised concerns about the supply of reinsurance in submissions, and most industry stakeholders who made a submission do not support the introduction of a reinsurance pool. Further, reinsurers also appear to consider that reinsurance is available and competitive in Australia, and have stated that:

- reinsurers have the capacity and the appetite to provide reinsurance to cover risk in northern Australia, including cyclone and flood risks, although one reinsurer added this was as long as the price appropriately reflects the risk
- the COVID-19 epidemic had not materially altered reinsurance availability, although one stakeholder argued that it had provided a catalyst for required pricing increases following inadequate returns on global reinsurance portfolios over the 2017–19 period
- providing reinsurance to northern Australia helps to diversify their exposure both within Australia, but also globally (one noted that reinsurers write global portfolios and manage their exposures in this context)
- reinsurers do not use any geographical or product restrictions which would prevent them providing cover in northern Australia. Further they did not consider that northern Australia posed an exposure problem as long as they priced the risk adequately. However, one noted that reinsurers actively manage and balance global accumulations, and could restrict certain geographies if imbalances occur

\textsuperscript{114} Insurance Council of Australia (ICA) submission to the NAII second update report, p. 2; Suncorp submission to the NAII second update report, p. 2; Insurance Australia Group (IAG) submission to the NAII second update report, p. 2; RACQ submission to the NAII second update report, p. 4.

\textsuperscript{115} See for example the ARPC in Australia, Flood Re in the UK, the JER and TREIF.
the reinsurance market is, in their view, competitive and there is new capital flowing in
historically Australia is one of the cheaper reinsurance markets, as it is a good ‘global diversifier’.

Similarly, reinsurance brokers also appear to consider the reinsurance market is operating well, with one noting that they were comfortable that there is sufficient capacity in the reinsurance market to underwrite flood and cyclone risk.

Secondly, information we have obtained during the inquiry also appears to show that reinsurance markets are operating well. We have seen that all insurers have been able to obtain catastrophe reinsurance, and that they use a combination of different types of reinsurance to manage their catastrophe exposure. Further, it appears that catastrophe reinsurance is available from a range of reinsurers in Australia, including large global reinsurers. The majority of insurers have excess of loss reinsurance programs that are provided by between 50 and 70 reinsurers. Further, large reinsurers generally provide reinsurance to a number of the insurers active in northern Australia.

Insurance availability

As noted above, the availability of home, contents and strata insurance does not currently appear to be an issue in northern Australia. Cyclone and flood cover are included as standard in nearly all home, contents and strata insurance products. Therefore it does not appear that a government reinsurance pool is necessary to address insurance availability issues. Many industry stakeholders considered that there was not a lack of availability for insurance as insurers are still willing to price risk in northern Australia.

Accordingly, a government reinsurance pool is more likely to be used as a mechanism to improve affordability rather than one which improves availability in northern Australia.

Government reinsurance pools can improve affordability, but without additional government assistance the impact is uncertain

We have seen that the key reason for the introduction of government reinsurance pools is to address situations where private insurance or reinsurance markets are not providing coverage for particular catastrophe risks. That is, they are primarily used to address availability issues. However government reinsurance pools can also be designed to lower insurance premiums. Internationally this has usually been achieved by the government providing reinsurance at subsidised levels (i.e. lower than the technical premium required to reinsure the risks covered) with the savings to insurers being passed on to consumers in lower insurance premiums.

If a government reinsurance pool is subsidised, the degree to which it will lower premiums is of course largely dependent on the level of subsidy provided. However, as noted below, the costs of providing a subsidy via a reinsurance pool can be high and we consider that if there is a desire by government to lower premiums by providing a subsidy, there are more efficient ways to do so.

We note that in 2015 the modelling commissioned for the NAIPT suggested that a cyclone reinsurance pool which did not rely on government support, and which purchased retrocession similar to a commercial entity, would not lead to a reduction in costs that could be passed on to consumers. In submissions a number of insurers also did not consider that a government reinsurance pool would substantially or sustainably lower premiums, with some stating that to do so would require a significant government subsidy. A number also noted that it would not address the underlying issue, and would discourage mitigation by obscuring the price signal.

116 The primary method is per event excess of loss contracts, however insurers also use aggregate cover for protection from multiple events and some have quota share arrangements. The reinsurance contracts are typically prepared on a national basis and for multiple perils.
117 ICA submission to the NAI second update report, p. 2; Suncorp submission to the NAI second update report, p. 2; IAG submission to the NAI second update report, p. 2.
118 For example see the CCR, TREIF and Flood Re.
119 Retrocession is the reinsuring of a risk by a reinsurer.
120 ICA submission to the NAI second update report, p. 2; Suncorp submission to the NAI second update report, p. 1; RACQ submission to the NAI second update report, p. 3.
121 ICA submission to the NAI second update report, p. 2; Suncorp submission to the NAI second update report, p. 5; RACQ submission to the NAI second update report, p. 4.
Additionally, the ICA, Suncorp, and IAG noted that international comparable schemes were introduced following a market failure resulting in a lack of availability for insurance.\textsuperscript{122} We have also seen that internationally, pools do not generally set premiums which reflect the technical cost.\textsuperscript{123}

Based on the information available to the inquiry, we consider that it is possible that a government reinsurer which did not subsidise premiums could potentially lower retail insurance premiums for consumers via a number of mechanisms. However, as discussed below, the extent to which they could do so is uncertain and the reductions may not be significant. These potential savings could also apply where a government reinsurer subsidised premiums.

\textit{Removing profit margins}

The first way that a government reinsurance pool could lower insurance premiums is by operating as a not-for-profit.\textsuperscript{124} In this way the government reinsurance pool could provide cheaper reinsurance, as premiums would not include a profit margin. The extent to which this could reduce insurance premiums in northern Australia is unclear, but it seems unlikely that it would have a significant impact. As discussed in detail in chapter 4, the reinsurance component of insurance premiums varies across insurers and regions, but it can be higher in northern Australia than the rest of Australia. However, it is only part of the retail premium.

It is difficult to provide precise estimates of the scale of reinsurance components of retail premiums, as many insurers did not separate the reinsurance component of premiums from other components (such as natural perils). Data from insurers who did provide reinsurance premium components shows the reinsurance component is on average around 9\% of the technical premium for combined home and contents insurance in northern Australian case study areas in 2018–19.\textsuperscript{125}

However, these figures may underestimate the amount that reinsurance costs contribute to home and contents insurance premiums, as overall insurers estimate that they cede a large proportion of the premium received out as reinsurance. In 2018–19 for example, 38\% of the gross earned premium attributable to all home and contents insurance products for the whole of northern Australia was ceded to reinsurers and 33\% for the rest of Australia.\textsuperscript{126}

We do not have access to data on how reinsurance premiums would fall if profit margins were removed. However, even if the government insurer was able to lower premiums by forgoing a profit margin, this would only result in a reduction of the reinsurance component of the premium. For example, if a government reinsurer was able to reduce reinsurance premiums by 10\% by forgoing a profit margin, this would result in only a 3\% reduction of the technical premium where the reinsurance component was 30\%.

A government reinsurance pool may also have a lower cost of funds. Again though, this is unlikely to have a significant impact on the retail premiums that flowed through to consumers.

\textit{Increased bargaining power}

A second way it has been suggested that a reinsurance pool could lead to lower insurance premiums is by the government reinsurer purchasing retrocession (i.e. cede risks to another reinsurer) at a cheaper rate than insurers would be able to purchase reinsurance. These savings would be passed on to insurers, and eventually consumers, through lower reinsurance premiums. It is argued that the government insurer would be able to purchase cheaper retrocession because it would have better bargaining power as it has a larger pool of risks.

A government reinsurer for all the cyclone and/or flood risk in northern Australia may not, however, be able to offer the same diversification benefits to reinsurers (to whom it would need to cede risks), as private insurers. Insurers will generally negotiate their reinsurance programs based across a more

\textsuperscript{122} ICA submission to the NAIL second update report, p. 2; Suncorp submission to the NAIL second update report, p. 2; IAG submission to the NAIL second update report, p. 2; RACQ submission to the NAIL second update report, p. 4.
\textsuperscript{123} For example, the CCR, TREIF, Flood Re and the JER all subsidised reinsurance premiums to some extent.
\textsuperscript{124} Currently both the Australian Reinsurance Pool Corporation and Florida Hurricane Catastrophe Fund do not operate with a profit motive.
\textsuperscript{125} The selected areas are Port Hedland (6721), Katherine (0850) and Townsville (4817).
\textsuperscript{126} Based on financial data supplied by insurers.
diverse range of perils at a national, and sometimes at an international level. To the extent that this was the case, a government reinsurance pool’s bargaining power may in fact be reduced.

**Improving competition in insurance markets**

Finally, it is possible that a government reinsurance pool may be able to lower retail premiums by facilitating increased competition between insurers where all (or a large part) of the peril(s) (cyclone and/or flood) risk is ceded to the government reinsurer. As we found in the first interim report, competition for higher risk consumers is subdued in parts of northern Australia because insurers do not actively compete to win customers in high risk areas. This is often because insurers seek to manage their exposure in these areas, so that they do not face high and volatile claims costs.

If all risk for particular perils was ceded to a government insurer, the disincentive for insurers to compete for high risk customers would be removed. This could lead to increased competition for such consumers, and may see a reduction in the use of premium adjustments to manage concentration and exposure risk, as well as upward market adjustments.

However, the extent to which a pool could lower premiums by facilitating increased competition and removing incentives for adjusting premiums is uncertain.

As discussed in chapter 4, technical premiums are high in northern Australia, and generally make up a large portion of premiums. For example, in a selection of the northern Australian case study areas the average technical premiums across selected insurers were approximately $2,400 on average for combined home and contents insurance in 2018–19. It is highly unlikely that a government reinsurance pool which set risk based premiums would allow insurers to reduce premiums below the technical premium level. Further, as seen in the government insurer discussion below and also in chapter 10, total premium adjustments vary across insurers and regions, and those made for concentration or exposure risk, and market adjustments, vary significantly across insurers and have been particularly difficult to quantify. As a result it is very difficult to estimate how much insurance premiums could fall if insurers’ reasons for making such adjustments were removed.

We also note that to some extent, premium adjustments made for concentration or exposure risk reflect the risk of having ‘correlated risks’ within an area. A risk based government insurer that accepted all peril risk would also face this risk, and as a result may also need to consider this in setting reinsurance prices (which insurers would then pass on to customers).

Overall, the potential benefits which could flow through increasing incentives for insurers to compete for high risk customers in northern Australia are uncertain. Further, as discussed below, a government reinsurance pool which accepted all risks for particular perils would be very costly to operate. The potential for a government insurer to increase competition, and lead to lower premiums, is also discussed in section 8.4 below.

**Potential costs can be significant and highly variable**

*The costs of a reinsurance pool are difficult to estimate with certainty*

The costs of a reinsurance pool are difficult to estimate with a large amount of certainty, as it is difficult to predict natural catastrophe claims into the future. For example, a government reinsurance pool could go for many years without a natural disaster occurring, in which case reinsurance claims, and the costs to the pool will be low. However, it is also possible that within a short space of time, or early in the life of the pool (before it has had the chance to build its capital base via reinsurance premiums), there could be a number of natural disasters. This would result in significant claims costs for the reinsurance pool which it may not be able to meet with only premium revenue. As we discuss in chapters 5 and 6, claims from natural disasters can be significant and highly volatile.

This issue was also noted by the NAIPT when it considered the costs and benefits of a reinsurance pool in 2015, as shown in box 8.1.

---

127 These case study areas are Port Hedland (6721), Katherine (0850) and Townsville (4817). We note that retail premiums in these areas can be lower due to the use of downward premium adjustments by insurers for some customers. Further, the technical component of premiums will differ across regions and insurers.

Box 8.1: NAIPT estimations of the costs to operate a cyclone pool

The taskforce commissioned three cyclone modellers to estimate the potential damage and insurance claims by simulating a large number of cyclone events over a very long period. One proposed cyclone reinsurance pool offered a potential 10–15% reduction in total premiums which required a 20–30% reduction in cyclone premium.

The taskforce estimated that there was no upfront cost for this, but the government would be taking significant risk onto its balance sheet without receiving a fee. In the first year, it is estimated there is around a 20% chance that the government guarantee would be triggered, although this probability falls over the life of the scheme. There is up to a 5% chance that the payment under the guarantee would be greater than $2 billion. Over a 10-year period, there is a 50–60% chance the guarantee would be called on at least once and 10–20% chance that the total value of calls would be over $2 billion.

International experience also suggests that reinsurance pools can be costly for governments, particularly where they subsidise premiums.

While it is difficult to estimate the costs of a government reinsurance pool, based on the detailed information we have received during the inquiry, we have been able to make some assessment of the potential scale of costs to operate a reinsurance pool for cyclone and flood risk. We consider this illustrates that the costs of a government reinsurer can be significant. We have considered the costs to operate a pool which sets risk based premiums at the technical level, and also the costs for government to subsidise a pool, as set out below.

Risk based premium reinsurance pool

Data obtained from insurers suggests that for the period 2008–09 to 2017–18 the average cyclone claims cost was around $139 million per year and the average flood claims costs was approximately $32 million per year in northern Australia for home, contents and strata insurance products. However, we note that the average claims varied greatly during this period with a maximum combined cyclone and flood cost of $682 million in a single year. The cost to government to meet such claims would depend on how much risk was ceded to the government reinsurance pool, the level of retrocession purchased by the pool and how the pool set premiums. If insurers were to cede all risk to the reinsurance pool, and the government did not purchase retrocession, the government reinsurance pool would need to cover all cyclone and flood claims costs. Theoretically, if the government reinsurance pool sets premiums at the technical level, this should be sufficient to cover these costs. However, as we have seen in chapters 5 and 6, claims cost vary considerably, and as a result, it is possible that the government reinsurance pool would need to call on the government to meet claims during these years, if it had not yet established sufficient reserves from previous years’ premiums. We have seen that the problem of government-funded deficits has not arisen in the UK for Flood Re or the Australian Reinsurance Pool Corporation in Australia, but in these cases flood and terrorism activity since their establishment has been relatively benign.

In the long run, we would expect that a reinsurance pool which set risk based reinsurance premiums should not need additional government support. However, the difficulty in accurately estimating claims costs means that it is possible that operating a pool could still be costly over the long term. As noted in chapter 6, the profitability of insurers in northern Australia has been poor for many years.

There are also other costs associated with a reinsurance pool, in addition to the cost of claims. For example, the opportunity cost or cost of capital for any government guarantee which is used to support the pool. There are also implementation and administration costs of the pool. Further, the pool will also face additional costs to those estimated above, as currently underinsured increase coverage, and non-insured consumers enter the market assuming the pool provides cheaper insurance premiums.

129 These figures have been adjusted to real $2018–19.
130 This was in $2010–11, adjusted to real $2018–19.
131 It must be noted that for Flood Re any potential deficit would be funded via levies rather than government guarantee.
**Subsidy costs and premium reductions**

The costs to government to subsidise reinsurance premiums under a government reinsurance pool depend on the size of the subsidy. As a result we have attempted to estimate the potential premium reductions that could result from a range of government reinsurance pool subsidies. Our estimates of the costs and premium reductions for a subsidised reinsurance pool, to which insurers cede all cyclone and flood risk for all home and contents insurance products, are shown in table 8.2 below.

<table>
<thead>
<tr>
<th>Reinsurance premium subsidy level</th>
<th>Annual subsidy cost ($ million)</th>
<th>Maximum premium reduction (excluding impact on taxes, levies and commissions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>34.2</td>
<td>5%</td>
</tr>
<tr>
<td>20%</td>
<td>68.4</td>
<td>10%</td>
</tr>
<tr>
<td>30%</td>
<td>102.66</td>
<td>15%</td>
</tr>
<tr>
<td>50%</td>
<td>171.10</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.
Note: This is the cost if the pool were to provide reinsurance for all home and contents insurance products.

The estimates above are based on the cyclone and flood component of insurance premiums constituting about 50% of the retail premiums in northern Australia, and a government reinsurer setting equivalent reinsurance premiums.\(^{132}\) We note though, that we have chosen a 50% figure to illustrate the potential costs and benefits, and as discussed in chapter 4, the peril component of premiums varies by insurer and by region. In some places cyclone components of premiums can make up a larger proportion of the retail premium, and in others it can be much less than this. For example, on average, the cyclone and flood components were 37% of premiums in a selection of the northern Australian case study areas in 2018–19.\(^{133}\) We have also seen that the cyclone component can be greater for some insurers in some areas.

As a result, the above represents an estimate of the average benefit and costs, but we note that given the variability in cyclone and flood components, the potential benefit of a reinsurance pool would vary significantly between consumers. While significant reductions could be achieved via operating a subsidised reinsurance pool, we do not consider that a reinsurance pool is the best way to administer a subsidy aimed at improving affordability.

A key reason for this is that an effective subsidy should be targeted at those facing affordability issues, and therefore needs to consider both the level of insurance premiums and other factors, like income (i.e. some income eligibility criteria should apply). It is difficult to determine which policyholders would benefit from reduced reinsurance premiums via a subsidised reinsurance pool, as it would have no direct connection with consumers.

This means that the beneficiaries of lower reinsurance costs may not be those consumers who are facing the most acute premium pressures. High-risk policyholders that can benefit from a pool or scheme may range across a wide socio-economic spectrum as it would be difficult for insurers to reinsure properties differently based on the customers’ incomes. At one end of the spectrum are people of low socio-economic means, who do not have the capacity to move to less risky locations or afford higher premiums. At the other end are those who have the socio-economic means, but who by choice live in desirable but highly risk-exposed areas.

**Other factors impacting costs**

There are a number of other factors which could impact the cost of the government reinsurance pool.

First, the level of risk retained by insurers will impact how much a government reinsurer takes to run. The costs to government would be less if the pool only accepted a portion of cyclone or flood risk. For

---

\(^{132}\) We have calculated the annual subsidy cost by assuming that reinsurance premiums set at the technical level would be equivalent to 50% of the total gross earned premium for northern Australia in 2018–19. The total gross earned premium in northern Australia in 2018–19 for all home and contents insurance products is estimated to be $684 million.

\(^{133}\) These case study areas are Port Hedland (6721), Katherine (0850) and Townsville (4817).
example, it could only provide cover for losses above a specified amount. We have seen that generally insurers retain losses between around $20 million to $250 million under excess of loss reinsurance arrangements, and cede losses above this to reinsurers. We have also seen that the lower layers of reinsurance cover are generally the most expensive.\textsuperscript{134} As a result, while it would be less costly for government to provide only higher layers of reinsurance cover, this would have less impact on retail premiums paid by consumers.

Secondly, whether participation in the scheme is compulsory or voluntary can also impact the costs to operate a scheme. If a pool is voluntary, the only risks that will be ceded to the pool are the most volatile risks, and private insurers and reinsurers will want to continue providing cover to the less risky or more profitable properties. In this case a government reinsurance pool will essentially be subject to adverse selection in the insurance market. That is, the pool takes the small body of highly exposed risk that do not yield sufficient volume or price to be profitable for the industry to trade.

If the pool takes only the highly volatile or extreme risk, but does not also have access to the wider body of risk, with which to diversify its own exposure, then it has a portfolio skewed to higher expected losses that will be removed to the pool and ultimately the government balance sheet. This means that the taxpayer, through the government’s balance sheet, will cover these higher expected losses for a) the purposes of allowing a market to continue to trade; and b) the protection of only a small proportion of residents.

**Competition in insurance and reinsurance markets may be impacted**

A reinsurance pool will generally have less impact on an insurance market compared to the introduction of a government insurer (considered in section 8.4) which would displace existing private insurers. All insurers would have the same opportunity to take advantage of a government reinsurance pool. Where a government reinsurer took on all cyclone and/or flood risk, it may also incentivise insurers who do not supply in northern Australia due to the volatility of the region to enter the market, and there is the possibility that a pool could increase competition in insurance markets.

However, to the extent that a government reinsurance pool is designed to result in lower reinsurance costs (made possible through government funding or guarantees), it will have a significant competitive advantage over other reinsurers.

**Reinsurance premium reductions will be passed through unevenly**

A reinsurance pool would not directly reduce insurance premiums for consumers. Instead, the reinsurance pool could lower retail premiums by lowering reinsurance premiums to insurers. As the reductions are not made directly to retail premiums paid by consumers, there is potential for issues to arise with insurers failing to pass through savings from reduced reinsurance premiums to consumers, or passing these through unevenly.

Ultimately the insurer agrees on the premium with the customer and the actual premium charged can be detached from the cost of reinsurance. Only effective competition will encourage insurers to compete on price to pass on reinsurance savings, and as we discuss in chapter 7, competition in the insurance market appears more subdued in northern Australia than it is in the rest of Australia. Ongoing monitoring may be required of the amount of reinsurance premium savings passed through to consumers in high risk regions and in total.

**Future government exit could be difficult**

If the scheme has no adverse impact on insurance markets, it is feasible that the government could gradually withdraw support for the scheme. However, overseas experience demonstrates that withdrawal is very difficult.

\textsuperscript{134} In excess of loss reinsurance, losses over a certain amount can be divided into layers. For example, an insurer may retain responsibility for losses up to $250 million. Losses above this amount may be the responsibility of one or more reinsurers under subsequent reinsurance layers, for example, from $250 million to $300 million, from $300 million to $350 million and so on.
The potential for government exit may only exist where there is the potential for the underlying cause of the issues in insurance markets to be rectified. For example, exit may only be possible when either the private sector is willing and able to offer premiums equal or lower than those available when the pool is in place, such as where the level of risk has fallen (e.g. where mitigation has been undertaken).

The other alternative is to plan for government exit at the inception of the pool. For instance gradually winding back the extent of a government guarantee over time, until the pool offering is no longer competitive with the private sector. However, a key reason that it appears government exit can be difficult is that government reinsurance pools usually do not address the underlying risk levels of the properties covered.

Flood Re in the UK is an example of a pool which has a finite life. Flood Re is in a period of transition through to 2039 when it plans to exit. The aim is to move towards risk-reflective private sector pricing over this extended period of time. The private and public sector have this time to implement mitigation and risk reduction responses over a significant period. Another key design of the scheme that may reduce risk in the long term is the intention that Flood Re not be available for newly constructed homes (those built after 2009). However, it is not certain that Flood Re will not be required in 2039.

There may be a negative impact on risk signals

A government reinsurance pool which sets risk based prices would not impact the ability of insurance premiums to act as risk signals. However, where the government reinsurance pool is subsidised (via a levy, cross-subsidisation between policyholders or by the use of a government guarantee), the reinsurance premiums will not be reflective of risk at the individual property level.

For example, where a pool subsidises higher risk premiums by charging a flat rate for all property types, the higher risk property added to the pool may incur a lower reinsurance premium than otherwise would be the case if a true technical risk was determined, and lower risk properties could possibly pay more.

Accordingly, where government reinsurance pools are subsidised in some way they can effectively mask the true cost of the risk and spread this amongst a broader population. In the absence of transparency about the cost of risk, there is a reduced incentive on the part of homeowners, and governments to reduce the underlying risk. The cost of this heightened exposure will then be borne for years to come. The impact that subsidised pricing can have on risk signals is discussed in detail in section 8.5 below.

Conclusions

Implementing a reinsurance pool is a substantial and disruptive intervention into the insurance market. There are a number of indicators which suggest the current reinsurance market is operating reasonably well, and that the types of issues seen in insurance markets internationally where pools are used do not exist in Australia. As noted in section 8.2 insurance is generally available in northern Australia, and while non-insurance rates are higher, they are not near levels observed internationally where government schemes have been introduced.

It is likely that for a reinsurance pool to lead to significant premium reductions, it would need to provide reinsurance at a subsidised rate. While it should be recognised that there are high risk regions and individual properties which currently struggle with the affordability of insurance, a more targeted solution may be more appropriate than a reinsurance pool which disrupts the broader sector, and which may not see savings passed through to consumers.

We do not consider that a reinsurance pool is necessary to address availability issues in northern Australia.

135 Flood Re is planned to be in place until 2039. See: www.floodre.co.uk/our-future, viewed 27 October 2020.
8.4 **Government insurers**

The second measure we have considered are government insurance pools or mutuals (which we refer to as ‘government insurers’ in this chapter).

**Background**

As noted previously, a government insurer is a government-run or funded insurer with insurance mutual or pool characteristics, which generally provides catastrophe insurance for a particular peril or perils and is usually not-for-profit.

The insurance cover provided by the government insurer is either sold by a private insurer as part of a home insurance product or directly to consumers. Under either arrangement the government insurer retains the risk for the particular peril(s) it covers, while the private insurers retain the risk for all other events.

Government insurers are usually funded by policy premiums, industry levies and/or government subsidy and are often backed by a government guarantee.

As is the case for government reinsurers, there are a number of aspects of the design of a government insurer that can impact the effectiveness of the insurer including:

- the risks covered: the type of peril, and number of perils covered
- the geographic area covered: whether coverage is provided nationally, or is restricted to a particular geographic location
- the class of consumers eligible to purchase coverage: whether coverage is available for all consumers, or a particular subset of consumers
- funding arrangements: the way a government insurer is funded, sets premiums and limits claims
- the role of private insurers: whether coverage is supplied directly to the market or distributed via private insurers.

In this section we have assumed a government insurer would provide cover for cyclone and flood risk for residential home, contents and strata insurance in northern Australia.

**Previous consideration**

The NAIPT considered government insurance mutuals providing cyclone cover. The scheme considered they would charge sufficient premiums to cover operating expenses and an estimate of long-run expected claims costs, with the government covering the risk of all additional claims. The scheme was modelled to reduce consumer premiums on average by an estimated 10 to 15%, with policyholders with high cyclone risk expected to receive the largest reductions, as the cyclone component of total premium would be higher for these policyholders.

The NAIPT however considered that a cyclone mutual would not be the best option for northern Australia, as although removal of cyclone risk may encourage the entrance of new insurers, it is likely that a mutual would crowd out private sector cyclone cover. Further, integration of a mutual into the operation of private insurance companies would be complicated and potentially costly, reducing any potential premium reduction.

The NAIPT also considered that the potential for the government to exit from supporting the mutual was low. It appeared unlikely that a mutual could raise the required capital to ensure that it was financially viable in the event that government support was removed. The NAIPT also noted that private insurers would have to return to pricing and modelling cyclone risks but their capabilities would likely have deteriorated during the period in which they did not offer cyclone cover because of the presence of the mutual.
Stakeholder views

The Actuaries Institute, along with the ICA, RACQ, IAG and Suncorp expressed the same views regarding government insurers as they did for government reinsurance schemes. These were set out in section 8.3 above.

While supporting a government reinsurance pool, Allianz opposed the introduction of a mutual, stating that the potential savings of a reduced profit margin would not deliver substantial reductions in premiums.\textsuperscript{136}

The Port Douglas Apartments Committee (PDA) and Mark McGrath supported the reintroduction of a government owned insurer, comparable to the previously Queensland government owned SGIO. This measure should create competition in the market.\textsuperscript{137} Suncorp opposed the government entering the market as an underwriter, as it would unfairly burden taxpayers who ultimately pay for the risk that could be covered by the private sector.\textsuperscript{138}

RACQ considered if a government insurer is targeted to a specific region, there is an increased risk that it will not be sustainable, as it will not be able to offset the risks against regions less prone to disasters and perils.\textsuperscript{139} Dr Allan Manning and Max Salveson considered a government insurer established to write high risk cyclone and flood is unlikely to bring competitive and affordable premiums without a spread of other more desirable risks in the portfolio, unless it incorporated severe underwriting requirements and limitations in cover that would be seen as unacceptable.\textsuperscript{140}

Overall, a mutual was not supported by stakeholders, particularly among insurers. Only individual Peta Mott supported a mutual on the grounds that it would help attract people to northern Australia.\textsuperscript{141} Consumer advocate Margaret Shaw does not support a mutual, seeing it as complicated and administratively inefficient.\textsuperscript{142} Industry experts Dr Allan Manning and Max Salveson also do not support a government owned flood or cyclone mutual as the risk loading of such a portfolio would be too high for a satisfactory financial outcome.\textsuperscript{143}

Our views

We do not consider that a government insurer is likely to address affordability issues in northern Australia in a way which would justify the scale and costs of such an intervention. Our reasons for reaching this conclusion are outlined below. We note many of these reasons are also applicable to government reinsurance pools, set out above.

A government insurer is not required to address insurance supply or non-insurance issues in northern Australia

Government insurers have generally been introduced internationally to address high levels of non-insurance or where there are issues with insurance being available from the private market. Our analysis does not show that these conditions currently exist in northern Australian insurance markets.

Insurance availability

First, our analysis indicates that insurance is generally available for residents in northern Australia. As noted above, we do not consider there is a significant availability issue for northern Australia. Nearly all insurance products offered in northern Australia automatically include flood and cyclone cover. Although we note there are fewer suppliers than in the rest of Australia, and the number of suppliers willing to insure a consumer may depend on that consumer’s risk profile.

\textsuperscript{136} Allianz submission to the NAII second update report, pp. 4, 6.
\textsuperscript{137} Port Douglas Apartments Committee submission to the NAII second update report, p. 3; Mark McGrath submission to the NAII second update report.
\textsuperscript{138} Suncorp submission to the NAII second update report, p. 1.
\textsuperscript{139} RACQ submission to the NAII second update report, p. 6.
\textsuperscript{140} Dr Allan Manning and Max Salveson submission to the NAII second update report, p. 32.
\textsuperscript{141} Peta Mott submission to the NAII second update report.
\textsuperscript{142} Margaret Shaw submission to the NAII second update report, p. 13.
\textsuperscript{143} Dr Allan Manning and Max Salveson submission to the NAII second update report, p. 32.
A government insurer could possibly improve the availability of insurance in northern Australia. A government insurer would remove private insurers' exposure to cyclone and flood risk to the extent that they transferred this risk to the government insurer. This could make northern Australia more attractive to new entrants by removing the volatility of catastrophe claims. As insurers would not be exposed to the volatility of high cost cyclones and flood, insurers that operate low cost and low profit margin business models in the rest of Australia could operate similar business models within northern Australia. A government insurer that provided cover for flood and cyclone would also likely lower reinsurance costs for insurers operating in northern Australia as it would not need to cover cyclone or flood risk.

A government insurer therefore has some scope to improve availability, either through enabling new insurers to enter northern Australian markets, or enabling existing insurers to expand their operations into areas, or for consumers, where current supply may be more limited. This increase in the number of insurers supplying insurance could promote greater price competition, particularly if 'price challenger brands' that currently largely exclude northern Australia increase their presence in the region.

However, any improvement in availability is likely to be modest, given availability is not currently a significant problem in northern Australia.

**Non-insurance levels**

While non-insurance levels are higher in northern Australia than other parts of the country, it also does not appear that the levels of non-insurance in Australia are close to those seen in countries where government insurers have been introduced.

The rate of home insurance in northern Australia is approximately 80% which, although lower than the rest of Australia, is much higher than other jurisdictions that introduced government insurers, such as the US and Turkey. For example, prior to the introduction of the California Earthquake Authority (CEA), companies representing 93% of the California homeowners insurance market had either restricted or stopped writing homeowners policies altogether.\(^\text{144}\) Prior to the introduction of the Turkish Catastrophe Insurance Pool (TCIP) in Turkey, only around 3% of residential buildings had earthquake insurance.\(^\text{145}\) In comparison, the rate of home non-insurance in northern Australia is estimated to be approximately 20%, with the highest rate of non-insurance in north Western Australia at approximately 40% (non-insurance levels are discussed in more detail in chapter 12).

We note submissions to our second update report consider strata availability may be worsening.\(^\text{146}\) We consider the challenges facing strata insurance markets in chapter 16.

Internationally, government insurers that have been introduced to increase the uptake of insurance have had mixed success. For example, only 35% of households in high flood risk areas in the US have flood insurance, even though insurance is offered through the National Flood Insurance Program (NFIP).\(^\text{147}\) Similarly, while most of California is at some risk of earthquake, in 2017 only approximately 11% of policies in California include earthquake insurance.\(^\text{148}\) Turkey has had success in improving earthquake insurance rates since the introduction of the TCIP. Eleven years after the TCIP’s introduction, insurance rates for earthquake insurance had improved from 3% to 23% of dwellings, and up to 40% of dwellings in high risk areas.\(^\text{149}\)

---


\(^\text{146}\) See Name withheld 1 submission to the NAII second update report; SCA (Qld) submission to the NAII second update report; SCA submission to the NAII second update report.


Potential for a government insurer to improve affordability in northern Australia

Although government insurers are predominantly implemented internationally to address availability concerns, a well-designed scheme can still address affordability issues in northern Australia. In considering the potential for a government insurer to improve affordability in northern Australia, we have considered its risk coverage, how it is funded and how it sets premiums.

We have obtained data from insurers on the components of their premiums. This data indicates the largest components of retail premiums in northern Australia can often be cyclone and/or flood components (discussed in chapter 4). We therefore consider a government insurer that provides cover for these two perils will have the greatest potential to significantly reduce premiums. A government insurer that provides cover for a broader range of risks may be able to reduce premiums further, but as considered below, will have a larger distortionary impact on competition.

The extent to which a government insurer is able to reduce premiums will largely depend on its funding mechanism and how it sets premiums. Below we consider the potential for a government insurer to reduce premiums when it is funded by policyholder premiums only and sets premiums close to the technical price. Next we consider a government insurer that is funded by a broader funding base (such as a levy or consolidated government revenue) which provides insurance at subsidised rates.

Setting premiums at the technical level

We first consider a government insurer that provides cover for cyclone and flood, is funded by policyholder premiums and sets premiums at, or close to the technical level (i.e. the risk based premium). The potential for this type of government insurer to lower insurance premiums depends on it reducing premium by removing or reducing profit margins and some types of premium adjustments, similar to a government reinsurance pool discussed above.

This design would have the advantage of setting risk based premiums which are more likely to cover the cost of claims, while also maintaining price signals. However, the impact that this could have on premiums depends on how great premium adjustments are in northern Australia. Premiums would likely still be high, as the technical price attributable to cyclone and flood costs will still be high.

Insurers regularly adjust premiums from the technical rate to account for considerations such as concentration risk and exposure. A government insurer could set premiums at the technical level, but because insurers are no longer retaining the risk for cyclone or flood, there is less incentive for insurers to reduce their concentration risk in northern Australia by increasing premiums. As a result private insurers could lower the level of premium adjustments in northern Australia, and retail premiums could fall.

As discussed in chapter 10, our analysis of data obtained from insurers indicates the level of premium adjustments used by insurers varies significantly across regions and insurers but in some cases can significantly increase retail premiums paid by consumers. We have also seen evidence of many insurers making upward premium adjustments and have discussed a number of examples. Removing the incentives for insurers to make such adjustments could lower premiums for some consumers significantly.

However, similar to a government reinsurance pool, how much a government insurer could lower premiums by reducing such adjustments is very uncertain for a number of reasons.

First, there may be reasons other than flood or cyclone risk that insurers make these adjustments, such as exposure to other risks not covered by a government insurer, which will limit the ability of a government insurer to remove the totality of the premium adjustment. Further, the government insurer, covering all cyclone and flood risks in northern Australia may also incorporate a degree of concentration risk pricing in their premiums, which would be passed onto consumers.

Secondly, premium adjustments can be used to lower retail premiums below the technical premium, particularly in areas with high risk exposures. This is mainly a result of capping, where insurers do not pass on full premium increases in a single year. Capping can be particularly high in Port Hedland. For example, for selected insurers, capping premium adjustments were $2,810 on average for home insurance and the home component of combined home and contents insurance in 2018–19. In this case,
insurers are pricing below the technical premium. However, if a government insurer was introduced that priced at the technical rate, it seems likely that insurers would no longer use capping because if they did they would need to absorb the difference between the technical premium and the capped retail premium.

Thirdly, the level of premium adjustments varies significantly between insurers, and for some the degree of upward adjustments appears to be small. This variation, and lack of reliable information from all insurers on the scale of premium adjustments makes it difficult to confidently estimate how a government insurer could lower premiums by increasing competition and reducing the extent of premium adjustments.

One difficulty a government insurer will face is a lack of claims data and experience in pricing catastrophe risk, which may impact its ability to set appropriate risk based retail premiums. This may result in conservative estimates of the costs to provide peril cover, and may minimise the impact the government insurer could have on retail premiums, or could even lead to higher premiums. Alternatively, a government insurer may underestimate a technical premium and therefore be more likely to require additional government funding.

**Setting premiums at a subsidised level**

Alternatively, a government insurer could have a more significant impact on reducing premiums if it offers premiums below the technical rate. If this was the case, the government insurer would be unlikely to cover the costs of future claims through premium revenue alone and would likely need to be backed by a government guarantee and/or collect additional revenue through an industry wide levy, or setting flat premiums across all customers (i.e. introducing cross-subsidies between customers).

The extent of any benefit (and the costs) would depend on the amount of the subsidy and significant premium reductions would require significant subsidies and involve a significant cost. We consider that the likely costs and benefits of subsidised government insurance pool would be very similar to those outlined for a subsidised government reinsurance pool as set out in section 8.3 (see table 8.2).

Depending on how the subsidy is funded, a pool also has the potential to increase premiums for some consumers. If the pool were to subsidise high risk consumers by introducing flat rate pricing, low-risk customers would likely pay higher premiums in order to reduce the premiums of high-risk consumers. If private insurers can continue to cover cyclone and flood risk in parallel with the government insurer, then private insurers will likely underwrite these low-risk consumers, which will enable them to continue to be offered lower premiums. However, this will leave the government insurer with a pool of high-risk consumers removing any ability of cross-subsidies to reduce premiums for these consumers. Preventing private insurers from including cyclone and flood cover other than that supplied by a government insurer would enable cross-subsidy to reduce premiums for high-risk customers. However this would have the effect of raising the premiums faced by lower risk customers.

Further, as with a government reinsurance pool, we do not consider that a government insurer is the most effective way to provide subsidised premiums to consumers in northern Australia.

**A government insurer will benefit consumers to different extents**

As for a subsidised government reinsurance pool, the extent a government insurer that subsidises premiums will benefit a consumer, will depend on the flood and cyclone components of their premiums, and will vary considerably across northern Australia. As we discussed above in section 8.3 and in chapter 4, the cyclone and flood component of premiums can vary significantly by insurer and region.

Cyclone risk is more widespread across northern Australia than flood risk, but where flood risk is high, the flood component of premiums can be of a similar scale to cyclone components. As a result, it is likely that a government insurer would benefit a significant number of consumers in northern Australia if it were to reduce cyclone premiums, but that a much smaller proportion of consumers would benefit from a reduction in flood premiums.

Removing concentration risk for private insurers (through high cyclone risks being covered by a government insurer) would reduce their need for premium adjustments to manage this concentration risk, reducing customer premiums for the risks retained by the insurer. However, the transfer of these
high cyclone risks to the government insurer will increase the probability of the government insurer needing to call on a government guarantee if a significant claims cost event were to occur.

**The potential costs of a government insurer can be significant**

We consider that a non-subsidised government insurer could lower premiums to some extent, and could also have a positive impact on competition for non-flood and cyclone insurance markets within northern Australia. However, for a government insurer to significantly lower premiums it would need to subsidise premiums and this would be costly.

**International experience shows government insurers can be costly**

Internationally, where a government insurer provides unlimited cover at a subsidised level, and relies only on premium revenue, it has proved to be very costly. The main example of this is the NFIP in the US, which has relied on government cash injections on a number of occasions. From 2004 to 2018, the NFIP borrowed USD$39.4 billion from the federal government in order to pay out claims. In October 2017, the US Congress cancelled USD$16 billion of NFIP debt, making it possible for the program to pay claims for hurricanes Harvey, Irma, and Maria. 

In New Zealand, although the Earthquake Commission (EQC) had built up approximately NZD$6.1 billion in reserves prior to the 2010–11 Canterbury earthquake, the government was required to inject NZD$165 million plus GST in November 2018. As at October 2019, the EQC has received around NZD$200 million under the government guarantee.

While the CEA has remained solvent, it received initial funding from a levy on insurers and can limit the total amount that can be paid in claims if claims exceed available funds. So while the potential for a call on government funding is reduced, this would be to the detriment of potential claimants.

**Claims costs are highly volatile and significant**

Again, the costs of a government insurer are affected by many of the same factors as a government reinsurance pool. The potential cost of a government insurer resulting from claims depends on how a scheme is funded and how premiums are set. For premiums set at the technical rate, it is expected that claims costs are fully funded by policyholder premiums, although this will not always be the case as noted above. However, for a scheme with subsidised premiums, premium revenue is less likely to be sufficient to meet claims costs, and the government would be required to meet the difference, which will increase proportionally with the size of the subsidy.

As noted above and discussed in chapter 5, the gross claims expenses for cyclone and flood for northern Australian home, contents and strata insurance products were approximately $1.4 billion and $320 million respectively between 2008–09 to 2017–18, however the annual amount varied significantly between approximately $425,000 and $601 million for cyclone, and between approximately $344,000 and $152 million for flood claims during this period.

Even where premiums are set at a technical rate, the ability for a government insurer to build sufficient capital to cover future claims costs through only policyholder premiums is also dependent on whether there are any events with high claims costs in the first few years of the government insurer. If a large claim cost event occurred in the first few years of a government insurer being implemented, then this increases the probability of the government being required to inject further funding, either as part of a pre-arranged guarantee, or in order to meet shortfalls where consumers’ claims will not be met, or only partially met.

---


154 These figures have been adjusted to real $2018–19.
While premium revenue is more likely to be sufficient to meet claims costs where a government insurer sets premiums at the technical level, there is still a chance that this will not be the case. As set out in chapter 6, it is estimated that all insurers we obtained financial data from made losses across their home, contents and strata insurance operations in northern Australia in 2018–19, and for the 12 years to 30 June 2019, insurers in northern Australia are estimated to have experienced an aggregate gross loss across home, contents and strata insurance products of approximately $856 million in real terms. This demonstrates the potential for even established insurers to incur significant losses over an extended period.

If a government insurer was to subsidise premiums, the potential costs would increase significantly.

Other costs to government

On top of the claims costs, a direct government insurer will also pay administration costs and costs related to claims handling. There will also be implementation costs, and other capital requirements.

While we consider a government insurer would incur additional administration expenses (which will need to be recouped from either policyholders or government), we consider duplication of claims handling costs can be reduced where existing private insurers are engaged (for a fee) to distribute and handle policies. This would also remove confusion as to who the customer deals with, as the only point of contact would be their insurer. This model is used internationally. For example, the CEA distributes its policies through private insurers who also handle all CEA claims. However, any fee paid to private insurers would need to be recouped from either policyholders or government, either reducing premium savings or increasing the cost to government.

We note a government insurer would not need to incorporate a profit margin over and above the cost of capital into its pricing.

A government insurer would also be expected to reduce the demand for government assistance following a natural catastrophe event, to the extent that the government insurer resulted in a greater rate of insurance coverage than would otherwise have been the case. This potential benefit would also depend on whether governments would ordinarily provide assistance to those that have incurred insurable losses.

Broader competition and market impacts

As discussed above, we consider a government insurer could potentially improve competition in northern Australia for the provision of insurance for other perils not covered by the scheme. By increasing the number of insurers willing to provide other types of insurance outside of flood and cyclone, a government insurer is likely to have a positive impact on competition. Insurers will compete on their ability to price risk accurately, without the unpredictability of volatile cyclone and flood claims cost and their associated reinsurance costs, which can result in conservative estimates of price.

Adjustments to premiums to reduce exposure to certain areas or consumers (described in chapter 10) are also likely to be less common and lower. This will likely result in many northern Australian consumers receiving more accurate price signals than they are receiving now.

However, a government insurer also has the potential to significantly disrupt the private insurance market. To the extent that the government insurer enjoyed a government guarantee, or provided subsidised flood and cyclone insurance, private insurers would not be able to offer similar premiums and remain profitable. As such there would be little incentive for private insurers to update and maintain their own risk and pricing models for floods and cyclones.

A government insurer that provided cyclone and flood insurance would therefore likely reduce the number of private insurers willing to insure these risks. If the perils covered by a government insurer are broadened (for example to help diversify its risks), the distortionary impact will also be broadened.

While the government insurer is in place, this has little impact on availability, as private insurers can supply flood and cyclone insurance using the government insurer. However, if the government insurer were to exit, then there would be significant availability issues for flood and cyclone cover.

Of course, if existing private insurers were precluded from covering the perils to be covered by the government insurer, competition would be immediately eliminated for those perils. The detrimental effects of this would persist for a significant period even if such a scheme was wound up.

**The impact on price signals would need to be carefully managed**

As noted earlier, appropriately priced insurance is an important mechanism to send the right price signals to consumers about the level of risk they face, and may act as an incentive to engage in mitigation strategies to reduce this risk. However, insurers’ widespread use of premium adjustments in northern Australia as well as the application of taxes and stamp duties, means that the retail premiums paid by consumers can differ significantly from a property’s underlying technical premium (see chapter 10).

Therefore, it can be beneficial for a government insurer to price risk at the address level, and take into consideration building materials, construction type, location and other rating factors, in a similar manner to private insurers.

A government insurer can also provide incentives for mitigation through further premium discounts. However, as noted in chapter 4, even established insurers can lack the resources and systems to effectively take into account further mitigation measures undertaken by property owners. A government insurer would need to have these in place in order to incentivise mitigation. For example, premiums for the CEA are risk based and discounts are offered for certain retrofits.156

More broadly, to prevent poor planning and development, properties built after a certain year could be prevented from accessing the government insurer. Although we note this may result in availability issues for these properties if a government insurer acts as a barrier or disincentive for private insurers to provide an alternative source of cyclone and flood cover.

We therefore consider an appropriately designed government insurer can still provide meaningful price signals and mitigation incentives for consumers while also providing premium relief for consumers.

**Other disadvantages of establishing a government insurer**

**Winding up a government insurer would be problematic**

It will be difficult for a government insurer to exit northern Australian insurance markets once it has been implemented.

To significantly reduce current premiums, a government insurer will likely have to offer cyclone and flood premiums at a price lower than private insurers (and at a price lower than cost). As such, there would be little incentive for private insurers to compete with the government insurer by improving cyclone and flood risk rating models and offering a competing cyclone and flood insurance product. Private insurers’ ability and incentive to accurately price these risks will degrade over time as they are crowded out by a government insurer.

As noted in chapter 11, a lack of confidence in risk and pricing models can be a powerful barrier to entry or re-entry into northern Australian markets. Therefore, it would be difficult for a government insurer to exit without premiums significantly increasing as there would potentially be a lack of willing and/or capable private insurers to re-enter and underwrite cyclone and flood risks in the region.

As for government reinsurance pools, a key reason that government insurers can be difficult to wind up is that they do not address the underlying risk levels of the properties covered, and so the reasons for establishing the pool remain.

**A government insurer’s risks would not be well diversified**

A government insurer will also not gain the benefits of risk diversification. Currently, insurers underwrite a broad range of risks so that when an event causes claims in one area, the insurer can continue to profit from underwriting other, non-correlated risks or geographically diverse risks. An insurer that is geographically limited, and limited to specific risks, does not receive as many benefits from risk diversification as those providing coverage nationally for a wide range of risks.

Finity Consulting, in their modelling for the NAIPT, also found that given the limited diversification and nature of risk, the capital levels for a government insurer would be significant. Particularly in relation to APRA’s Insurance Concentration Risk Charge, and reinsurance. Therefore some costs to a government insurer may be higher than those for a private insurer that is able to achieve efficiencies through diversification across different types of risks.¹⁵⁷

The relatively low population in northern Australia will make it difficult for any government insurer limited to the area to diversify their risks adequately.

Conclusions

The establishment of a government insurer cannot be justified on the basis of availability concerns. Insurance is available from multiple insurers throughout Australia and rates of home insurance are high.

A government insurer has the potential to lower premiums for northern Australian consumers. However, the potential to lower premiums without the government subsidising the insurer in some way is uncertain, and may not be significant. Where the government subsidised premiums, a government insurer can have a greater impact on affordability, but the cost to government to implement the government insurer and provide subsidised premiums will likely be significant. If the government choses to subsidise insurance premiums, we do not consider that doing so via a government insurer is the most effective way to do so.

Further, there are other drawbacks to establishing a government insurer. A government insurer for flood and cyclone will also have a significant distortionary impact on the supply of these types of cover, which will make government exit difficult and diminish current private insurers’ ability to operate and compete in these areas in the future.

8.5 Direct subsidies, concessions and rebates

The third key measure that we have considered is the use of a government subsidy, concession or rebate (which we have referred to collectively as ‘subsidies’ in this chapter).

A government subsidy involves government bearing some of the costs of insurance premiums that are currently available in the market. The costs and benefits of a subsidy depend on the amount of funding, and how eligibility for assistance is determined. As outlined in this section, direct subsidies may be an effective way to relieve some of the acute affordability pressures faced by some consumers in northern Australia.

Background

The potential costs and benefits of a subsidy are a function of how it is designed. The key parameters are:

- the duration of the scheme
- the scope of the subsidy: which products and areas should the subsidy apply to
- eligibility criteria: whether some type of eligibility criteria should apply to the subsidy, including threshold premiums and/or income tests, if any
- the size of the subsidy

whether the subsidy is paid to consumers or insurers.

A subsidy could be distributed in multiple different ways. It could be paid directly to consumers, through the existing taxation or welfare systems, or through a custom developed system. It could be paid to insurers, who collect data on their customers and claim the corresponding subsidy from government, passing the subsidy on to consumers through a reduced premium. It could be paid through additional funding supplied to a reinsurance pool or mutual, which would allow these schemes to offer discounts on their premiums (these have been considered above). Each of these methods carries different risks in ensuring the full value of the subsidy reaches consumers, ensuring the subsidy reaches consumers quickly, and different costs incurred by government bodies or the insurers.

We consider these design issues as we go through our assessment below.

**Previous consideration**

Subsidies, concessions and rebates have previously been opposed by the Productivity Commission as a means of addressing high insurance premiums and associated underinsurance. It considered that implementing a subsidy, concession or rebate would dull incentives to manage risks and would be a short-term and potentially costly solution.\(^{158}\)

We have not found any international schemes that provide direct subsidies or rebates for home, contents or strata insurance premiums. Although, we have observed that subsidies can be used for other forms of reinsurance.\(^{159}\)

There are a number of subsidies currently used in Australia to assist with living costs. For example, the childcare subsidy, which is available to all Australian families with annual household incomes below approximately $350,000, was estimated to cost $7.725 billion in 2018–19, increasing to $8.267 billion in 2019–20.\(^{160}\) Similarly, the private health insurance rebate, which is available to all Australians with incomes below $140,000 for individuals or $280,000 for families, was estimated to cost approximately $6.170 billion in 2018–19, increasing to $6.313 billion in 2019–20.\(^{161}\)

**Stakeholder views**

Stakeholders generally did not support a direct subsidy. GW3 and RDA-MIW supported a direct subsidy through a reduction in the tax component of the premium for those facing acute affordability issues and argued the subsidy would promote insurance uptake and consumer confidence in northern Australian insurance markets.\(^{162}\) RACQ submitted that a subsidy scheme would have to be carefully designed so it is implemented fairly and that a direct subsidy would need to be balanced with mitigation to provide a longer term solution.\(^{163}\)

Consumer advocate Margaret Shaw does not support a subsidy, suggesting it would be too expensive.\(^{164}\)

Legal Aid Queensland stated that a direct subsidy has many downsides, including that an insurer could adjust their pricing to collect part of it, price signals would be distorted, there would potentially be political resentment from those excluded from the subsidy, targeting the subsidy would be difficult, it would not address the risk, and that even with the subsidy insurance could still be unaffordable.\(^{165}\)

The ICA cautioned against premium subsidisation, stating that premium subsidies create a moral hazard and don’t reduce the underlying risk. The ICA stated it would also be extremely difficult for a

---

\(^{158}\) Productivity Commission, *Natural Disaster Funding Arrangements (Inquiry Report no. 74)*, 17 December 2014.

\(^{159}\) These include subsidies for health insurance and agricultural insurance.


\(^{161}\) ibid.

\(^{162}\) GW3 and RDA-MIW submission to the NAII second update report, p. 7.

\(^{163}\) RACQ submission to the NAII second update report, p. 6.

\(^{164}\) Margaret Shaw submission to the NAII second update report, p. 21.

\(^{165}\) Legal Aid Queensland submission to the NAII second update report, p. 6.
government to withdraw from a subsidy and it would strongly reduce the incentives for mitigation.\textsuperscript{166} Similarly, Suncorp opposed governments introducing a direct subsidy, stating that it would not deliver a sustainable reduction in premiums and would introduce inefficiencies in the market.\textsuperscript{167}

The Actuaries Institute noted that in some cases where under- or non-insurance occurs, a government implemented limited cross-subsidy can be employed to address affordability issues. This would need to be carefully controlled and should be narrowly targeted to address those most affected.\textsuperscript{168}

**Our views**

**Direct subsidies can improve the affordability of insurance in a targeted way**

The degree to which a subsidy will lower premiums is largely dependent on the amount that it is funded. Similarly, the cost of a subsidy is determined by the level of the subsidy and the eligibility criteria that determine who receives the subsidy.

As discussed in section 8.2 above, we have considered a number of ways that the affordability of insurance can be considered. We have also used this analysis to consider a range of ways of estimating the number of consumers who could be eligible for a subsidy, and the costs to provide subsidies that would move premiums to more affordable levels. We consider that a targeted subsidy, which takes into account both the size of a consumer’s insurance premium, and considers a consumer’s income, would be the most effective way for a subsidy to assist consumers experiencing acute affordability issues. However, due to the data available to us, we have not been able to fully take into account premiums and income levels in making these estimates. We also note that these estimates are based on 2018–19 premium levels and estimated rates of insurance. Changes in either of these parameters will necessarily affect the cost of any subsidy.

**Cost of possible subsidies based on income data**

The first method we have used to estimate the costs and benefits of a subsidy is to consider average premiums for combined home and contents products and home insurance products, and income levels in northern Australia.\textsuperscript{169} That is, we have considered the cost and benefits of providing a 10%, a 25% and a 50% subsidy to consumers in northern Australia who would be eligible for the highest level of Child Care Subsidy assistance. Under this scenario, the subsidy would be provided to eligible households regardless of the level of premium that they faced and as such, is not particularly targeted.

Based on this, we estimate that a 25% subsidy for all households in northern Australia with annual gross incomes below the 2019 Child Care Subsidy lower income threshold of $68,163 will cost approximately $78 million a year, approximately $47 million a year more than providing a 10% subsidy to the same households. Increasing the subsidy to 50% for households with incomes below $68,163 will cost approximately $156 million a year. This is shown in figure 8.10 below.

\textsuperscript{166} ICA submission to the NAII second update report, p. 5.  
\textsuperscript{167} Suncorp submission to the NAII second update report, p. 1.  
\textsuperscript{168} Actuaries Institute submission to the NAII second update report, p. 3.  
\textsuperscript{169} Income level data is based on the 2016 ABS Census.
The impact a 25% subsidy and a 50% subsidy would have on average premiums for home insurance and combined home and contents insurance products in each region is shown in table 8.3 below. The average premium for combined home and contents products in the rest of Australia in 2018–19 was $1,402, while the average premium for home insurance products in the rest of Australia was $924. With a 25% subsidy, premiums in regions of northern Australia would remain above the rest of Australia by between around $1,300 and $370 per year (or between 92 and 26% higher) for combined home and contents products. Of course, the difference is much smaller if a 50% subsidy is used, and in north Queensland and the Northern Territory, premiums would be close to or even less than the rest of Australia average. In north Western Australia, even with a 50% subsidy premiums in the region remain between 28 to 64% higher than the rest of Australia.

Table 8.3: Average premiums for home insurance and combined home and contents insurance products with different subsidies applied by region, 2018–19

<table>
<thead>
<tr>
<th></th>
<th>North Western Australia</th>
<th>Northern Territory</th>
<th>North Queensland</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Combined home and contents</td>
<td>Home</td>
<td>Combined home and contents</td>
</tr>
<tr>
<td>Average premium (2019)</td>
<td>$3,591</td>
<td>$3,040</td>
<td>$2,363</td>
</tr>
<tr>
<td>Average premium with 25% subsidy</td>
<td>$2,694</td>
<td>$2,280</td>
<td>$1,772</td>
</tr>
<tr>
<td>Percentage difference to average premium in the rest of Australia</td>
<td>92.1%</td>
<td>146.7%</td>
<td>26.4%</td>
</tr>
<tr>
<td>Average premium with 50% subsidy</td>
<td>$1,796</td>
<td>$1,520</td>
<td>$1,181</td>
</tr>
<tr>
<td>Percentage difference to average premium in the rest of Australia</td>
<td>28.1%</td>
<td>64.4%</td>
<td>-15.8%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

An issue with estimating the costs by income only is that it is not targeted at consumers facing acute affordability issues. The following methodologies consider the costs of a subsidy which takes premiums into account.
Cost of subsidies based on premiums per sum insured

In section 8.2 above we considered the proportion of policyholders in northern Australia who could be considered to have affordability issues by looking at premiums as a proportion of the sum insured. Considering the cost to subsidise consumers who would meet this threshold has the benefit of factoring in, to some extent, the value of the property being insured.

Approximately 7.85% of residents in our northern Australian case study areas had combined home and contents product premiums that were more than 1% of the sum insured. Assuming a similar percentage applies to all northern Australian combined home and contents products, approximately 18,000 policies out of 240,000 will have premiums that are more than 1% of the sum insured. Using the upper quartile and upper decile of premiums for combined home and contents products in our northern Australian case study areas as an approximation of the premiums those in this bracket would face, we estimate a 25% subsidy would cost approximately between $16.8 and $21.6 million annually. Increasing the subsidy to 50% would cost approximately $43.3 million per annum. This is shown in table 8.4.

<table>
<thead>
<tr>
<th>Region</th>
<th>Approx. no. of policies</th>
<th>Upper quartile premium</th>
<th>Upper decile premium</th>
<th>Total cost ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Western Australia</td>
<td>780</td>
<td>$5,565</td>
<td>$1,391</td>
<td>$1.09</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$7,918</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1,980</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1.54</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>2,067</td>
<td>$2,190</td>
<td>$548</td>
<td>$1.13</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$2,944</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$736</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1.52</td>
</tr>
<tr>
<td>North Queensland</td>
<td>16,022</td>
<td>$3,644</td>
<td>$911</td>
<td>$14.60</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$4,644</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1,161</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$18.60</td>
</tr>
<tr>
<td>Total</td>
<td>18,869</td>
<td>-</td>
<td>-</td>
<td>$16.81</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
<td>$21.67</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.
Note: This chart shows our estimate of the number of home and contents insurance policies in each region where the premium is greater than 1% of the sum insured in each region in northern Australia. It also shows our estimate of the savings and costs of a subsidy assuming that the average premium for these policies were equal to the upper quartile and the upper decile for the case study regions, and that it was only provided for combined home and contents insurance. Costs of the subsidy would differ if other product types were included.

There are potential issues with a subsidy scheme of this design. Residents with premiums just below 1% of the sum insured would not benefit, there may also be incentives for consumers to try to adjust their sums insured or other product features to become eligible for the subsidy. While those that are eligible could potentially end up with lower premiums than those that are not. A tapering of the subsidy could address these concerns, but would add to the complexity of such a scheme. This metric also does not take into account a household’s income. But if an income test were applied, we consider that the costs would be much lower.

Cost of possible subsidies based on both income and premiums

Finally, we have considered the costs and benefits of a subsidy that was made available to consumers that pay premiums that are over 2 to 3 weeks of their household income. Using 2016 average premiums for home and contents insurance and median household incomes for each region in northern Australia, we estimate a subsidy program that reduced premiums 25% would cost approximately between $34 million and $45 million depending on the income level, as shown in table 8.5. If a larger subsidy of 50% was used the subsidy would cost between $68 million and $90 million a year.

170 We have used upper quartile and upper decile of premiums as estimates of the retail premiums for consumers where the premium is greater than 1% of the sum insured. We have used premiums in these upper ranges as premiums greater than 1% of the sum insured are likely to be higher than average.
Table 8.5: Estimated number of households for which the average combined home and contents insurance premium for the region is greater than 2 weeks and 3 weeks gross household income, in northern Australia, 2016, real $2018-19

<table>
<thead>
<tr>
<th>Region</th>
<th>Two week threshold</th>
<th>Three week threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average annual premium</td>
<td>Amount of 25% subsidy</td>
</tr>
<tr>
<td>North Western Australia</td>
<td>$3,641</td>
<td>$910</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>$2,312</td>
<td>$578</td>
</tr>
<tr>
<td>North Queensland</td>
<td>$2,559</td>
<td>$640</td>
</tr>
<tr>
<td>Northern Australia</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers and 2016 ABS Census data
Note: The above does not compare actual income figures of households with the actual premiums from the households. Instead it compares household income levels from 2016 ABS Census data to the average premium in the area. These figures are for home and contents insurance policies only. Costs of the subsidy would differ if other types of policies were included. This figure is also limited to households that are privately owned and occupied separate house properties.

A subsidy where eligibility is determined on both income and premiums per sum insured in this way, is by definition more able to be targeted to those experiencing acute affordability issues, and therefore entails a smaller cost.

**Summary on the cost of subsidies**

The above shows that the costs of a subsidy rely heavily on the level of the subsidy and how eligibility is determined. While a large subsidy across all consumers who met an income threshold could have a considerable cost, we do not consider that a subsidy of this nature would be needed to address the acute affordability issues some are experiencing in northern Australia. Instead, a more targeted subsidy, which took the level of premiums and income into account, could be used to provide premium relief at a lower cost.

**Subsidies may be difficult to withdraw**

Insurance affordability in northern Australia is an ongoing issue, and the prime cost driver of high catastrophe risks is not going to resolve over time. As such, in the absence of other measures to reduce these risks, it is likely that a subsidy provided would need to be ongoing. This is because, without linking the subsidy to mitigation incentives, a subsidy will not reduce the underlying risk in northern Australia. The removal of a subsidy, even if phased out over a number of years, will lead to a significant impact on affected consumers and government would likely face public pressure to extend the subsidy.

However, a temporary subsidy may be more feasible if it is introduced in conjunction with another scheme such as mitigation funding.

**A subsidy may improve rates of insurance but won’t reduce underlying risks**

As described in chapter 12, affordability and value for money are the major reasons identified as to why people do not have insurance. A subsidy could allow some consumers who were previously priced out of the market to have access to insurance. It would likely result in an increase in insurance coverage, reducing the prevalence of under and non-insurance in northern Australia. However, even a significant subsidy may not be sufficient to make insurance affordable for some consumers, particularly those in higher risk properties.

As stakeholders noted, introducing a subsidy will not improve the risk profile of northern Australia.\(^{171}\) The return to the market of higher risk properties will actually slightly increase the aggregate risk taken on by insurers.

\(^{171}\) ICA submission to the NAII second update report, p. 4; Legal Aid Queensland submission to the NAII second update report, p. 6.
Some of the benefit of a subsidy will be captured by insurers

In comparison with government reinsurance pools and government insurers, subsidies can be more accurately targeted to address acute affordability concerns. Assistance can be directly provided based on a person’s insurance situation and/or income measures.

A subsidy will increase consumers’ ability to pay for insurance. We have seen that insurers can make premium adjustments for market or competitive reasons (see chapter 10). Where price competition is not strong, insurers may be freer to increase premiums in order to capture some of the subsidy benefits over time.

Insurers’ ability to obtain a portion of the subsidy can be limited by how the subsidy is distributed to consumers. Providing subsidies to consumers, rather than providing the subsidy through insurers, can reduce the chances of insurers inflating premiums for customers receiving a subsidy. However, we consider that it would also be more difficult for insurers to target premium increases at consumers who received a subsidy that was determined on the basis of income as well as premiums.

Subsidies can affect price signals, but these may not be clear in any case

A subsidy reduces the price of insurance without reducing the underlying risk of the insured property. To the extent that the premium provides an accurate price signal on the risks of a property, a subsidy will alter these signals.

A subsidy can also dampen the incentive for property owners to undertake mitigation works. Depending on the structure of the subsidy, mitigation works undertaken by a property owner may even result in the reduction or complete removal of the subsidy. We note that the ICA has stated that premium subsidies create a moral hazard and don’t reduce the underlying risk.

However, the extent of any distortion will depend on not only the parameters of the subsidy, but also the extent to which the current premium provides an accurate measure of the risks facing a property.

We note that the price signal conveyed by an insurance premium is a signal in relation to all the risks covered by the relevant insurance product. Aside from a limited selection of optional inclusions and exclusions, a consumer will have no way of knowing how much of their premium relates to particular perils. Chapter 4 sets out how much these technical premium components can vary between areas and insurers.

Beyond this, as we noted in section 8.3 and 8.4 above, premium adjustments can mean retail premiums vary from the technical premium for a property, often considerably, while the application of taxes and duties may take the retail premium further away from the technical premium. Further, it does not appear that a number of insurers have measures in place to recognise mitigation measures taken by consumers, and to this extent premiums do not always reflect the level of risk.

So while a subsidy will affect the price signal from an insurance premium, it is not necessarily clear the effect that this will have.

Setting these concerns aside, it can further be argued that the price signal consumers face in northern Australia currently is difficult for consumers to react to. For example, it is extremely difficult for consumers to respond to a premium relating to high flood risk, without moving house. However, the situation is different for those purchasing a house, or for the construction of new properties.

A large subsidy offered to higher risk properties in northern Australia would also dampen the role of insurance prices in discouraging further development in higher risk areas such as floodplains. One way to limit this distortion would be to limit a subsidy to only existing properties, making it unavailable to newly constructed ones. We consider planning processes in further detail in chapter 14.

Recommendation 18.11: Consider likely insurance costs before purchasing real estate. State and territory governments should implement measures to prompt consumers to investigate insurance costs when they are considering purchasing real estate.
Conclusions

A direct subsidy to northern Australian consumers would be the most direct way to relieve acute affordability issues that some consumers experience in northern Australia. While a government insurer or a reinsurance pool could also provide some relief from acute affordability issues, if governments did want to address insurance affordability by funding part of insurance premiums, we consider a direct subsidy is the most effective and efficient way to do so. A targeted subsidy that includes both premium level and income eligibility requirements has the greatest potential to provide premium relief to consumers facing acute affordability pressures, at a lower cost and more effectively than other measures.

A subsidy can also help to lower levels of non-insurance, by making insurance more affordable to those who currently decide not to purchase insurance. While subsidising these premiums involves a cost to government, lower rates of non-insurance can lower costs governments face in providing post-disaster relief to those who were uninsured.

Further, governments are actively trying to encourage development in northern Australia, and encourage people to live in the region. Governments have indicated they are committed to developing northern Australia, and laying the right foundations for economic growth, liveability and prosperity.173

However, we note that the effectiveness of a subsidy in reducing premiums for consumers will also depend on the strength of price competition in northern Australian markets. Measures to increase consumers’ ability to compare and switch products will make any subsidy more effective. It is important to note that, as described in chapter 6, northern Australia is currently not profitable for insurers, and so further pricing adjustments appear likely. Depending on the design of a subsidy, future price increases would either reduce the subsidy’s effectiveness or further increase its cost to government.

8.6 Mitigation programs

The fourth measure that we have given further consideration to are mitigation programs.

Background

As discussed earlier, mitigation programs are government funded programs spanning a broad spectrum of works. These works can be roughly grouped into two categories:

- Public (community level) mitigation: these are mitigation works designed to protect a community from a natural disaster. These can range from large scale infrastructure such as dams and levees, to smaller works such as public warning systems.

- Private (household level) mitigation: These are works undertaken on private properties designed to protect the property from a natural disaster. This includes but is not limited to roof tie downs to protect against cyclones, improved door and window seals to protect against water ingress, or tree clearing to protect against bushfire risk.

Chapter 21 considers mitigation in detail, but with an emphasis on private (household level) mitigation and the information needs of consumers, rather than as a means of addressing more general affordability issues across northern Australia, as we do here.

In the following sections we have considered the effectiveness of both types of mitigation activity in improving affordability in northern Australia, and the potential for further gains from additional government mitigation programs.

Between 2009–10 and 2018–19, government spending on mitigation through the National Partnership Agreement on Natural Disaster Resilience (NPANDR) agreements with the states was approximately

2.1% of total natural disaster relief funding. This is considerably lower than in the US where the Hazard Mitigation Grant Program alone consists of 15% of post disaster assistance funding, in addition to multiple pre-disaster mitigation funding programs.

Figure 8.11: National Partnership Agreement on Natural Disaster Resilience spending as a proportion of Natural Disaster Relief spending, 2009–10 to 2018–19


The Productivity Commission previously recommended that $200 million per year be used to fund pre-disaster mitigation. However the government, in conjunction with the state and territory governments, committed to invest at least $208.8 million over five years (or $41.76 million per year) from 2019–20 to deliver disaster risk reduction initiatives at all levels of government through the National Partnership Agreement on Disaster Risk Reduction (this replaced the National Partnership Agreement on Natural Disaster Resilience described above).

Separate to this, an Emergency Response Fund was established in December 2019 to allow the government to draw up to $200 million in any given year, beyond what is already available to fund emergency response and natural disaster recovery and preparedness, where it determines the existing recovery and resilience-building programs are insufficient to provide an appropriate response to natural disasters. The applied limits include $150 million to fund emergency response and recovery following natural catastrophes, and $50 million to build resilience to prepare for or reduce the risk of natural disasters in communities through mitigation.

We note in chapter 21 that some insurers provided premium discounts in response to mitigation works at a household level which were generally relatively modest, particularly compared with increases to base premiums. Mitigation works have been put forward by industry as one of the most effective means to achieve permanent reductions in insurance premiums by reducing both the frequency and severity of claims.

We have also recommended that insurers clearly state discounts provided for mitigation measures undertaken (Recommendation 21.1) and that information should be provided on the mitigation works

---


that could reduce premiums, and include a guide to the premium reductions for undertaking mitigation measures (Recommendation 21.2).\

**Previous consideration**

The NAIPT has previously commented that mitigation was a sustainable way of reducing premiums over the long run, citing insurance industry views that mitigation could reduce premiums by up to 20%.\(^\text{179}\)

As noted, the Productivity Commission found that ‘Australian mitigation spending was only 3% of what it spent post-disaster in recent years.’ They argued that investment in mitigation programs was insufficient and should be increased to $200 million per annum. They noted that this funding should be separate from existing funding for national mitigation and resilience projects, allowing for increased investment in appropriate mitigation activities which may reduce costs of future natural disasters and reduce insurance premiums where natural hazard risks to private property have been materially reduced.\(^\text{180}\)

In 2017, the Senate Economics References Committee recommended an increase in investment in targeted disaster mitigation in line with Productivity Commission recommendations.\(^\text{181}\) The government noted in late 2017 that it would not decrease disaster spending to fund increased mitigation spending but is looking at what more can be done with existing resources.\(^\text{182}\)

**Stakeholder views**

Promoting mitigation work was supported across all submissions, although there were differences in the preferred method and funding arrangements. Legal Aid Queensland submitted that mitigation measures, both private and public, are most likely to improve affordability and availability, and that mitigation directly reduces the risk and has been observed to work previously. In Legal Aid Queensland’s view, the other options are not as effective as they provide shorter term solutions and do not directly address the issue of risk, instead addressing the symptom of high risk: high premiums.\(^\text{183}\)

Margaret Shaw supported mitigation funding across Australia, so long as it is recognised by insurers. Difficulties with mitigation lie in that some insurers will recognise different things. Ms Shaw proposed that mitigation be funded by the insurers themselves, not by the government, possibly through a levy.\(^\text{184}\)

GW3 and RDA supported mitigation works after a full risk analysis which would then allow for accurate insurer pricing following the mitigation works.\(^\text{185}\)

APRA stated the premiums need to reflect the underlying risks, in order to maintain the prudential strength of insurers; measures which dampen price signals may deter mitigation and perpetuate the underlying challenge. APRA supported a focus on risk reduction and public mitigation.\(^\text{186}\)

Mr George Christensen MP, the Member for Dawson, considered direct financial assistance for mitigation works an option worth further consideration.\(^\text{187}\)

---

\(^{178}\) Recommendation 21.1: Clearly stated mitigation discounts. Insurers’ quotes and renewal notices for a property to expressly show what discounts have been applied (if any) to reflect mitigation measures undertaken on that property.

**Recommendation 21.2:** Information on mitigation works that could reduce premiums. Insurers’ quotes and renewal notices for home insurance to provide a schedule of mitigation measures which customers of the insurer have undertaken for properties with similar characteristics in order to improve their risk rating. This should include a guide to the premium reductions (in percentage terms) that consumers have received for undertaking these measures.


\(^{180}\) Productivity Commission, *Natural Disaster Funding Arrangements (Inquiry Report no. 74)*, 17 December 2014, p. 9.

\(^{181}\) The Senate Economics References Committee, *Australia’s general insurance industry: sapping consumers of the will to compare*, August 2017.


\(^{183}\) Legal Aid Queensland submission to the NAlI second update report, p. 3.

\(^{184}\) Margaret Shaw submission to the NAII second update report, p. 18.

\(^{185}\) GW3 and RDA-MIW submission to the NAII second update report, p. 7.

\(^{186}\) APRA submission to the NAII second update report, p. 1.

\(^{187}\) George Christensen MP submission to the NAII second update report.
The Actuaries Institute stated that mitigation, at both the micro and macro level, will become increasingly important as the risks of climate change increase.\(^{188}\)

IAG supported the introduction of a nationally coordinated disaster resilience program that should encompass private and public mitigation works. IAG submitted that this would save the government money in the long term.\(^{189}\)

RACQ supported mitigation, particularly public mitigation, and noted a collaborative approach to mitigation is aligned with the National Disaster Risk Reduction Framework (NDRRF). RACQ submitted that for any measure to be successful significant funding is required from government.\(^{190}\)

The Financial Rights Legal Centre only supported measures that are applied nationally and are sustainable, and argued that mitigation measures, both public and private, are the most sustainable options and most likely to improve affordability and availability long term.\(^{191}\)

The ICA supported retrofitting private mitigation programs similar to the Queensland Government’s Household Resilience Program, however submitted that these programs should not be means tested and should have broad eligibility. The ICA also supported large scale public mitigation measures funded by government, stating that these should be seen as nation building infrastructure on par with highways and rail.\(^{192}\) Allianz concurred with the ICA submission regarding the importance of mitigation.\(^{193}\)

The ICA and the Financial Rights Legal Centre supported a periodic building inspection regime which would identify vulnerabilities for potential mitigation measures.\(^{194}\)

Suncorp stated that more affordable insurance can be achieved through mitigation measures, at both a community and individual level. This could be funded through direct government funding or through concessional loans.\(^{195}\)

**Our views**

**Mitigation can improve affordability, but its impact can be limited**

Mitigation is widely advocated as the most sustainable way to reduce premiums in northern Australia.\(^{196}\) Mitigation works can increase the resilience of properties and reduce the risk of damage from a natural disaster event, which can lower the technical premium of the insured. In a competitive market, this will result in lower premiums in both the short and long term. Further, the premium reduction should be sustainable in the long run as the majority of mitigation works have a long lifespan. As discussed in appendix C, both private (household level) and public (community level) mitigation programs have been successful in reducing claims costs internationally.

**Public (community level) mitigation**

Community level mitigation has the potential to lead to significant reductions in premiums in certain locations. For example, in the Queensland town of Roma, following several major flooding events in 2010, 2011 and 2012, a levee was constructed to protect the town in two stages. The completion of the initial levee in 2014–15 and its extension in 2018 (completed in early 2019) are estimated to have protected over 500 homes from flooding. We found that the average premium for combined home and contents insurance in Roma reduced by over $600 from 2012–13 to 2014–15 following the initial levee. Chapter 9 discusses the premium discounts achieved in Roma in more detail.

---

\(^{188}\) Actuaries Institute submission to the NAII second update report, p. 1.

\(^{189}\) IAG submission to the NAII second update report, p. 3.

\(^{190}\) RACQ submission to the NAII second update report, p. 3.

\(^{191}\) Financial Rights Legal Centre submission to the NAII second update report, p. 2.

\(^{192}\) ICA submission to the NAII second update report, pp. 8, 12.

\(^{193}\) Allianz submission to the NAII second update report, p. 3.

\(^{194}\) ICA submission to the NAII second update report, p. 9; Financial Rights Legal Centre submission to the NAII second update report, p. 4.

\(^{195}\) Suncorp submission to the NAII second update report, p. 6.

Insurer documents also show how insurers responded to the introduction of the levee:

- Following the completion of the first phase of works, one insurer removed a 40% flood loading applying to new customers, and 30% loading applying to renewals.
- A second insurer also provided a 30% reduction in premium to its existing policies following the construction of the levee. This discount was on average approximately $560 per policy.

However, this type of mitigation will not be effective everywhere. It is not always feasible to protect a community from flood risk given the nature of the flooding danger, the location of properties and the general topography. As discussed in chapter 4, only a small proportion of properties in northern Australia are exposed to flood risk.

Further, even where potential public mitigation works have been identified, the cost of carrying out the works can be high. The flood levee in Roma cost approximately $15.6 million to construct the first stage, and a further $8.3 million to construct the second stage. This compares to a benefit of a $1.56 million decrease in annual combined home and contents insurance premiums in 2014–15 compared with 2012–13 levels, following the construction of the initial levee. However, we note mitigation can provide other, non-tangible, benefits to communities and not just reductions in insurance premiums. As noted by the Productivity Commission, the benefits of increased resilience can improve community safety, reduce property damage, enable speedier recovery, and reduce costs to the national economy.

Further, community level mitigation is not generally an option to meaningfully reduce cyclone risk or storm risk, which, as shown in chapter 5, are the two largest claims causes in northern Australia, with these being a widespread risk in the region.

So while community level mitigation can lead to significant premium savings in some communities, the potential for this to benefit northern Australia more broadly is limited.

**Private (household level) mitigation**

Private (household level) mitigation is a more effective way of lowering cyclone risk than community mitigation works. However, such works are not always recognised by insurers. Even when they are, the reductions in premiums from this type of mitigation are not generally as significant as they are for community level mitigation works.

In chapter 21 we observe that Suncorp and RACQ both offered discounts of up to 20% for homes modified for improved cyclone resilience. However, these two programs were structured differently; two thirds of Suncorp’s discounts under its program were for less than 5% of the total premium in 2017–18 while RACQ’s average cyclone mitigation discount in Queensland was $350 during the same period.

Also in Queensland, the state government offered the Household Resilience Program to implement cyclone resilience measures as explained in box 8.2. We also consider how insurers recognised property level mitigation work in chapter 21.

---

197 In order to help governments better identify effective public mitigation works, we made recommendation 21.3, which recommends the insurance industry work with governments to identify specific public mitigation works and estimates of premium reductions if the works proceed.


199 Productivity Commission, Natural Disaster Funding Arrangements (Inquiry Report no. 74), 17 December 2014.
Box 8.2: Queensland Household Resilience Program

The Queensland Household Resilience Program (HRP) provides funding to help eligible home owners improve the resilience of their homes against cyclones. Eligible home owners can apply to receive a grant of 75% of the cost of certain eligible improvements, up to a maximum of $11,250.

As at November 2019, the Queensland Government had awarded 1,748 grants with an average grant approval of $10,370, predominantly for roof replacements (approximately 82% of grants). The Queensland Government estimates that works completed under the HRP have resulted in an average insurance premium saving of 8.21%.

We have found the maximum level of discount available from each insurer was contingent on the property completing all the options funded under the scheme. This can be a substantial amount for some properties, but others may not implement the full suite of available measures and might only receive limited premium savings.

According to insurers’ internal documents, the level of discounts available as a result of the HRP varied from 1.5 to 50% of the cyclone component of the premium. For example:

- One insurer offers discounts on the cyclone component of the premium ranging from 5 to 45%. A second insurer offers discounts ranging from 1 to 50% of the cyclone component of the premium, but noted that the impact on revenue will be ‘negligible’ as a result of the low number of policies affected. A third insurer offered discounts ranging from 3 to 25% of the cyclone component, noting that this was a ‘reasonably conservative discount’, and that ‘Insurance Council and other sources indicate that total cyclone costs are likely to be at least 40% to 50%+ for roof-replaced homes’. This insurer estimated that the premium saved through the discount would be ‘a conservative $1,500 on average’, but that this would only affect a very limited number of policies, determined by its market share and the maximum funding available under the scheme. Discounts were variously dependent on the work undertaken through the HRP, the age of the property, and the cyclone risk rating of the property.

- One insurer offered a flat one time discount for works undertaken, ranging from $100 to $1,250 depending on the works undertaken, current premium, and property characteristics, noting that ‘the aim is to keep it simple and monitor the interest in this’.

However, one insurer noted that, ‘I think we need to be a little careful in setting an expectation in the minds of our customers that their premium will reduce if they take advantage of this scheme. While theoretically the risk is reduced by undertaking these repairs/upgrades, we currently have no systemised way of reflecting this in their storm premium. Even if/when we do capture this detail, the premium reduction will likely be less than a home owner might expect … this scheme is certainly not the full solution to insurance affordability in FNQ [far north Queensland]’.

On 19 May 2020, the Queensland Government announced a $21.25 million expansion of the program. The Australian Government provided $10 million and the Queensland Government provided $11.25 million in additional funding.

More generally, it is important to note that even extensive mitigation works will not remove catastrophe risk entirely. Mitigation will enable sustainable reductions in premiums for properties in high risk areas, but previous examples show that the reduction will not be enough to return premiums to historic lower levels.

Cyclone risk in particular is impossible to mitigate completely. Another consideration with cyclone risk is that the risk of damage cannot be controlled solely by actions taken by the homeowner. Nearby properties that have not implemented resilience measures can provide debris for a cyclone to damage an otherwise fully resilient property.

---


Further, those most likely to be suffering from affordability pressures are least likely to be able to afford to undertake mitigation work which would decrease premiums.

**Risk reductions from mitigation may not translate into lower premiums**

It is also possible that there will be pass through issues when mitigation works are carried out. As discussed in chapter 4, multiple insurers appear to have experienced difficulty in adjusting their systems to accommodate the premium reductions associated with the Queensland HRP. It currently appears that some insurers do not have automated systems in place to recognise where consumers have taken mitigation activity into account. We have also seen insurers may be unwilling to recognise this unless it has occurred as a result of a government program. One insurer also appears to only offer one off discounts which do not recognise the ongoing risk reduction from mitigation works.

Even where systems are in place, insurers may not pass the full benefit of the reduced risk on to consumers through lower premiums. This is more likely to be the case where consumers have difficulty in comparing and switching suppliers, or where strong price competition is lacking. In chapter 7 we observe an unusual competitive dynamic in the market, where insurers were reluctant to increase their market share or be seen as the lowest cost option available.

As we have noted in chapter 21, uncertainty about the scale and durability of premium reductions is a significant impediment to greater investments in both household and community level mitigation.

Chapter 21 explores in greater detail how insurers could support mitigation, and includes a recommendation that insurers work with governments to identify specific public mitigation works that could be undertaken, provide estimates of the premium reductions they anticipate, and publicly report on actual premium reductions if the works proceed.202

While there is likely to be public pressure on insurers to pass on the maximum value of mitigation works, especially for high profile mitigation programs, monitoring this to ensure it happens would be very difficult.

Insurers each have their own approaches to estimating technical premiums for a property, as described in chapter 4, and insurance premiums faced by consumers can differ significantly from these technical premiums due to the use of premium adjustments and the application of discounts, surcharges, taxes and duties. As such, a considerable amount of information would be required from a wide range of insurers and over a number of years to determine with confidence how a mitigation measure has affected premiums.

**Mitigation can improve the availability and take up of insurance**

Mitigation works completed at the community level can encourage high risk consumers who had previously exited the market to re-enter as their quoted premiums are reduced. This should result in a decrease in non-insurance rates in northern Australia. However, high upfront investments in private mitigation works may still act as a barrier for some consumers, particularly those who ceased insuring due to affordability concerns. Governments can lower this barrier by funding some or all of the investment cost.

Additionally, mitigation works can increase the availability of insurance where insurers were previously reluctant or refusing to sell insurance. The clearest example of this is in Roma, which had experienced a lengthy embargo from Suncorp immediately prior to the construction of a new levee in 2013.203

High catastrophe risk is one of the barriers to re-entry or expansion into northern Australia cited in chapter 11. While mitigation works can reduce catastrophe risks, they will not eliminate them. It is unclear then to what extent mitigation programs could encourage insurers to enter markets that they did not previously operated in.

202 This is recommendation 21.3.

Mitigation programs avoid distorting price signals regarding risk

The advantage of a mitigation program compared with other measures is that mitigation changes the underlying risk facing a property. Premium reductions which reflect this change in risk therefore do not involve a distortion of the price signals conveyed by insurance premiums.

In this chapter, we are considering government funded mitigation programs, rather than those mitigation works that a household may undertake without government assistance.

Therefore, by in effect subsidising private mitigation works in particular, a mitigation program will still be having a distortionary impact on decision making. By definition, such programs will result in mitigation works being carried out that would not be cost effective in the absence of the grant or subsidy provided by the program.

This can still be appropriate to the extent that this is correcting a market failure (for example, providing a flood protection public good) or on equity grounds (for example, funding household level mitigation works for a property owner that would not otherwise be able to finance them).

Features of effective mitigation programs

The cost of mitigation programs will vary considerably depending on the type of works covered. Larger works such as flood levees or significant household level programs can cost many millions of dollars but also have the potential to benefit many residents.

As an example of household level mitigation, the first round of the Queensland HRP was funded for $20 million with a maximum grant allocation of $11,250 per property, resulting in savings for approximately 1,750 households, with insurance premiums reduced by an average of $310. The program was extended with a further $21.25 million of funding in May 2020. The community level scheme in Roma that benefited 534 homes cost the government $7 million in funding, with an additional $20 million in expenditure by the local council.

An effective mitigation program should incorporate a robust assessment of the costs and benefits of potential mitigation works. Public (community level) mitigation will generally involve more dispersed beneficiaries and potentially a wider range of costs and benefits to consider beyond the impact of the works on insurance premiums. In addition to the project costs, community level works will require substantive preparatory work to identify potential projects and evaluate business cases.

A scheme focusing on household works would also entail costs to administer the scheme. Expanding the funding and, if necessary, amending the eligibility criteria of an existing scheme would appear preferable to creating a new framework.

Pre-disaster schemes work by strengthening existing structures ahead of any future natural catastrophe, as opposed to post-disaster mitigation schemes which occur in the aftermath of a natural catastrophe. The Queensland HRP is an example of a pre-disaster mitigation scheme. Under a post-disaster scheme, mitigation works are incorporated into designs to rebuild damaged infrastructure or households.

Pre-disaster works are preferable in that you can limit damage from that disaster and gain the immediate benefit of the reduction in risk, however post-disaster schemes are not without merit. They ensure funding is used in areas that are proven to have a real risk and are likely to be impacted again. Further they ensure mitigation works are conducted instead of a cheaper rebuild.

Incorporating increased mitigation funding into disaster relief funding is one method to increase the level of mitigation in Australia. To this end, we note that both pre and post disaster funding are included in the Emergency Response Fund established in 2019.

The government potential for exit from a mitigation scheme appears to be greater than the other options canvased in this chapter. The funding of the scheme could be adjusted each year, and the need for it will diminish over time as more and more properties and communities complete mitigation works.

---

However, the potential need for mitigation programs will not disappear entirely, as new communities develop and risk levels are reassessed.

Conclusions

As detailed in chapters 4 and 5, the largest natural catastrophe risks in northern Australia are flood, cyclone, and storm. Flood risk is usually concentrated on properties in a relatively small area, and the damage inflicted is often substantial. Household level mitigation works can help in mitigating against flood risk, but the methods that are most effective, such as elevating the house, are very expensive and often require a complete rebuild of the property. As a result of this, mitigating against flood risk is typically done with a large scale community scheme such as a dam or levee.

In comparison, cyclone risk is usually spread across a relatively large area, and can inflict a wide range of damage that can vary considerably from property to property. This is best mitigated at the individual household level, with options such as window shutters or roof tie-downs often being effective. Reducing storm risk also requires mitigation at the household level. Measures such as improved door and window seals can limit water ingress which is a major component of storm damage.

It is therefore necessary to consider both household and community level mitigation measures in order to mitigate against flood, cyclone, and storm risk.

Funding of private (household level) mitigation works as part of a government mitigation program may be harder to justify as the benefits of the works largely accrue to just the property owner. However, there can still be valid reasons for government support. These include financing upfront investments in mitigation, which could be recovered over time from insurance premium savings, or on equity grounds.

Regardless of the extent of funding governments wish to provide to mitigation programs, the impact the program will have on the affordability of insurance will be enhanced if the mitigation works they fund are determined with reference to a robust assessment of costs and benefits.

8.7 Licence or authorisation conditions

Background

Submissions received in response to the second update report have proposed the use of a licence or insurance authorisation condition to improve availability and possibly the affordability of insurance in northern Australia. This measure could be implemented by making it compulsory for insurers to supply home and contents insurance in all parts of Australia (including northern Australia), or to provide a minimum number of policies (or hold a minimum share of the market) in northern Australia.

Such a measure is presumed to help improve the availability of insurance in northern Australia and reduce the premiums paid by northern Australia customers, as insurers would need to compete to acquire the required number of policies or market share. Insurers that have no interest in the market would be required to offer products, thereby increasing options for consumers and competition.

Previous consideration

The 2012 House of Representatives Standing Committee on Social Policy and Legal Affairs recommended that the Australian Government investigate the feasibility of requiring insurance companies which supply types of mandated insurance (such as residential strata insurance) to offer this type of insurance to all Australian regions as part of their operation.205

This recommendation was not supported by the government of the time, on the basis that other insurers may lack the expertise, capital or risk appetite to insure in northern Australia and decide to exit

the strata insurance market altogether, and that other insurers might choose to comply by entering but with artificially inflated premiums to avoid generating policies.\textsuperscript{206}

### Stakeholder views

Kerryn Beck, a strata owner and manager, and consumer advocate Margaret Shaw proposed that insurers be required to offer insurance across the state, and be prevented from limiting their presence to only a portion of it. Margaret Shaw stated that this measure is intended to increase competition.\textsuperscript{207}

This is similar to a policy proposed by Mr George Christensen MP, member for Dawson, that would require insurers to have a set minimum percentage of customers in disaster prone areas, to be achieved through voluntary targets, or if insurers continue to fail to meet these targets, through regulation.\textsuperscript{208} He added that a policy of forcing insurers into disaster-prone markets with affordable premiums could fix problems of underinsurance and non-insurance in these areas.\textsuperscript{209}

### Our views

While such a measure has the potential to lead to more insurers offering insurance in northern Australia, and potentially greater competition for some consumers, we think that the likely detriments of such a measure outweigh the potential benefits.

#### Licensing conditions could increase competition and suppliers in northern Australia at a low cost to government

Such a licensing condition would lead to an increase in the number of insurers who are active in northern Australia, as it would be required under the licence conditions. In order to meet quotas, competition for customers in northern Australia may also increase, and some consumers in areas where there are fewer insurers would see lower insurance premiums.

This could be achieved at a low cost to the government, as it would not be required to provide any subsidies to lower insurance premiums. However, there are a number of drawbacks with such a scheme which we consider outweigh these potential benefits.

#### Barriers to entry would rise

Licence conditions or authorisations of this kind would place smaller insurers, who may not be active in northern Australia at a disadvantage, and could act as disincentive for new insurers to enter the Australian market. As noted above, such a measure could require insurers without the capital, expertise, or data necessary to set premiums in northern Australia to price products in the area. We note in chapter 11 that such barriers are not insurmountable, however such insurers would need to rely on industry hazard and claim history data, which may not be of sufficient granularity to appropriately understand and price policies, and would place them at a competitive disadvantage to other insurers who have access to data of sufficient granularity through experience in northern Australia.

Further, insurers who do not currently have a presence in northern Australia face difficulty attracting consumers, especially where consumers face high search costs and information problems. This will make it difficult to establish a presence in order to attract sufficient customers to meet any minimum requirements. Insurers have high retention rates in northern Australia, and any new insurer would likely find it difficult to win customers and meet any market share requirements.

When these factors are considered along with the high risk of northern Australia, which has resulted in a number of insurers declining to write business in the area, such a measure has the potential to deter...


\textsuperscript{207} Kerryn Beck submission to the NAII second update report; Margaret Shaw submission to the NAII second update report, p. 7.

\textsuperscript{208} George Christensen MP submission to the NAII second update report.

\textsuperscript{209} ibid.
new insurers from entering the Australian market, and could even lead some insurers to exit, thereby reducing competition in Australian insurance markets.

**There would likely be implementation issues**

In addition to these concerns, we also note that there are a number of significant implementation challenges with such a measure.

Regardless of how a quota was set, insurers would need a reasonable amount of time to adjust their operations in order to be able to meet it. This is especially the case where an insurer had little or no presence in a market.

A quota could be set with reference to the number of policies written, the gross written premium or the overall sum insured. Each of these options involves significant shortcomings which are set out below. However one challenge common to all these approaches is determining the amount of business (however measured) that an insurer should be required to have in the target areas (‘quota’ level).

For example, if an insurer writes 5% of policies outside of northern Australia (the ‘reference area’), should they be required to hold 5% of policies inside northern Australia (the ‘target area’) or some lesser percentage, for example 4%?

The closer that the quota is set to the reference area amount, the more constrained insurers’ activities will be in the reference area. Conversely, setting the quota at some lesser amount will reduce the potential for the measure to assist all customers in the target area, as insurers will be able to be more selective about what customers they seek to obtain to meet their quota requirement.

A quota set with reference to the number of policies in a geographic region would similarly be likely to increase competition primarily for lower risk customers and do little to assist those consumers facing very high premiums.

Setting a quota in relation to higher risk properties could reduce but not eliminate this outcome, as any grouping of risks would still contain a mix of more and less attractive policies so would not necessarily assist all properties within the grouping. In addition, separate quotas may be required for separate perils (such as flood, cyclone and bushfire).

A quota requiring insurers to have a certain percentage of their gross written premium in an area would present a clear perverse incentive for insurers to increase premiums in the target area.

Finally, a quota which required insurers to have a certain percentage of their total sum insured in the target area would create an incentive to distort consumers’ decisions on how much to insure their properties for, and would also need to account for higher building costs (and therefore higher sum insured values) in higher risk areas.

**Conclusions**

For the reasons set out above, we consider that such a measure would not be effective in addressing issues in northern Australia. While it could increase the number of suppliers, and competition in the region to an extent, we consider there could also be a number of issues in implementing such a measure. Such a measure would be very difficult to establish and monitor, would be likely to distort markets and impact on broader supply decisions, and may in fact increase premiums for customers it is intended to assist (by forcing in higher cost suppliers), or result in a cross-subsidy with other consumers.

We do not consider that imposing licensing or authorisation conditions of this kind on insurers would help achieve better long term outcomes for consumers in northern Australia.
8.8 **Summary of conclusions**

Government reinsurance pools in other jurisdictions have generally been introduced to address issues we have not currently observed in northern Australia. Private insurance markets continue to supply insurance, including for cyclone and flood risks, throughout northern Australia. Government insurers also cannot be justified on the basis of availability concerns, and their potential to lower premiums without the government subsidising the insurer in some way is uncertain, and may not be significant.

However, insurance can be very expensive for some consumers, and unaffordable to others, particularly those in higher risk areas. As a result, the level of insurance cover in this strategically important part of the country appears to be declining.

Government intervention to improve affordability could possibly be justified on equity or strategic grounds, but we are not best placed to make such a judgement.

Of the measures we considered, subsidies have the greatest potential to enable targeted affordability assistance. A targeted subsidy that includes both premium level and income eligibility requirements can provide premium relief to consumers facing acute affordability pressures at a lower cost and more effectively than other measures.

This could help to improve rates of insurance in northern Australia (particularly north Western Australia where they are particularly concerning), which could in turn reduce the burden on governments from providing post-disaster relief. Targeting insurance affordability in this way can also help to support governments’ objectives of developing northern Australia.

However subsidies also have some drawbacks. These include the potential for insurers to appropriate some of the benefit over time due to the difficulties consumers face in searching and switching between insurers.

Government-funded mitigation programs can help reduce the underlying risks facing residents in northern Australia. However, the costs and benefits of new or expanded mitigation programs need to be considered alongside other spending priorities.

Applying licence or authorisation conditions to force insurers into northern Australian markets, or to take on higher risk customers, would be counterproductive. It would raise barriers to entry and expansion, as well as create perverse outcomes.

Land use planning and building standards appear to offer the best hope for improving future insurance affordability, however consideration of insurance issues is currently limited in both cases. These areas are explored in chapters 13 and 14.

If governments want to provide immediate relief to consumers facing acute affordability pressures, they should consider targeted direct subsidies, rather than reinsurance pools or other measures.
Recommendation 8.1

If governments want to provide immediate relief to consumers facing acute affordability pressures, they should consider direct subsidies over other measures.

There are calls for government intervention through a range of measures to address acute affordability and availability issues in the supply of insurance in northern Australia. We investigated the relative merits of measures including government reinsurance pools, government insurers, direct subsidies, mitigation programs and licence conditions.

If governments want to intervene, they should consider doing so through direct subsidies based on both premium level and income eligibility requirements, rather than government reinsurance pools or other measures.

Direct subsidies have the greatest potential to work in a targeted way to relieve some of the acute affordability and cost of living pressures facing consumers in higher risk areas, at a lower cost and more effectively than other measures.

There are some risks with subsidies, such as distorting price signals to consumers and the subsidy being absorbed over time by insurers where price competition is not strong. Careful subsidy design can help manage these risks.

Government reinsurance pools in other jurisdictions have generally been introduced in situations where insurance or reinsurance was not available through private markets. This is not currently the case in northern Australia. Private insurance markets continue to supply insurance, including for cyclone and flood risks. As such, government insurers and reinsurance pools cannot be justified on the basis of availability concerns.

The potential for government insurers and reinsurance pools to lower premiums without the government subsidising the insurer in some way is uncertain and may not be significant. These measures cannot be targeted to consumers most in need, and would transfer significant risks from insurers and reinsurers to governments.
9. Detailed case studies on sub-regions in northern Australia

Postcode-level data does not fully reflect the experience of many consumers in northern Australia, particularly those living in higher risk areas within often very large postcode areas.

We undertook a number of detailed case studies on parts of northern Australia to gain a better understanding of where consumers face acute challenges in the availability of affordable insurance products, as a focus for our inquiry in 2019.

Focus area 2

Detailed case studies on sub-regions in northern Australia

We will undertake a number of detailed case studies on parts of northern Australia that face particularly acute availability or affordability issues.

In addition to looking more closely at premium pricing in the area, we will also consider other issues such as claims experience, levels of non-insurance and underinsurance, and the degree of competition in the area.

The case studies highlight the diversity of experiences across the regions and explore a number of important issues, such as premium pricing, property risk ratings, claims expenses, level of coverage, and the degree of competition in the area. More detailed explanations of these issues are contained throughout other chapters in this report.

These case studies explore issues through policy (household) level data received from insurers, to provide a more complete assessment of the factors influencing and impacting local insurance markets.

9.1 The case study areas

Case study areas were selected to broadly represent the geographic and socio-economic diversity of northern Australia and identify areas that presented concerning and noteworthy features.

The case study areas as identified on the map below are:

- Townsville—the 2019 floods (postcodes 4810, 4811, 4812, 4814, 4815, 4817)
- Cooktown (postcode 4895)
- Mackay to Airlie Beach—areas affected by Cyclone Debbie (postcodes 4740, 4741, 4798, 4799, 4800, 4802, 4803)
- Port Hedland (postcode 6721, 6722)
- Kununurra (postcode 6743)
- Katherine (postcode 0850)
- Alice Springs (postcode 0870)
- Roma—the impact of public mitigation (postcode 4455).
We also obtained data for Goulburn in New South Wales, for comparison purposes. While it is well outside of northern Australia (situated between Sydney and Canberra), its average premium and sum insured are very similar to the national average, in an area that is geographically large and diverse.

9.2 Case study 1—Townsville—the 2019 floods

The Townsville region in north Queensland was affected by a major natural disaster, causing unstable weather, high rainfall and major flooding, in late January and early February 2019, one of the worst to ever impact the region.

Following this major natural disaster the government requested we assess the extent of non-insurance in the flood-affected areas of the Townsville region, including households that have insurance but not flood cover. In parallel to our inquiry, the government also requested we examine the extent of non-insurance for small businesses in the affected areas of Townsville and the reasons for this.

While these events also affected areas across north Queensland, our case study focused on the impact on Townsville and surrounding areas (the ‘Townsville floods area’). This case study took a closer look at residents’ claims data and also drew on consumer research we commissioned as part of our work on understanding the extent of, and reasons for, non-insurance (see chapter 12).

Region snapshot—Townsville floods area (4810, 4811, 4812, 4814, 4815, 4817)

<table>
<thead>
<tr>
<th>Demographics</th>
<th>4810</th>
<th>4811</th>
<th>4812</th>
<th>4814</th>
<th>4815</th>
<th>4817</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postcodes</td>
<td>Townsville, Belgian Gardens, Pallarenda</td>
<td>Oonoonba, Idalia, Vulguru</td>
<td>Currajong, Mundingburra, Hermit Park</td>
<td>Mt Louisa, Cranbrook, Douglas</td>
<td>Condon, Gumlow, Granite Vale, Rasmussen, Kelso, Pinnacles</td>
<td>Thuringowa Central, Kirwan</td>
</tr>
<tr>
<td>Population—2016 Census</td>
<td>21,836</td>
<td>13,142</td>
<td>18,804</td>
<td>46,124</td>
<td>21,032</td>
<td>30,413</td>
</tr>
<tr>
<td>Of which, Aboriginal and/or Torres Strait Islander people—2016 Census</td>
<td>1,006</td>
<td>1,244</td>
<td>1,217</td>
<td>2,978</td>
<td>2,572</td>
<td>2,191</td>
</tr>
<tr>
<td>Median age—2016 Census</td>
<td>39</td>
<td>34</td>
<td>38</td>
<td>32</td>
<td>33</td>
<td>34</td>
</tr>
<tr>
<td>Median household weekly income—2016 Census</td>
<td>$1,357</td>
<td>$1,512</td>
<td>$1,114</td>
<td>$1,488</td>
<td>$1,283</td>
<td>$1,588</td>
</tr>
</tbody>
</table>
Background

Unstable weather and heavy rain hit the Townsville region in late January and early February 2019, the result of a very active monsoon trough and a slow-moving deep low pressure cell sitting to the north-east of Mount Isa drawing in moist air from the Coral Sea. That moist air converged with south-easterly winds in the Townsville region, creating a convergence zone of unstable weather. The trough didn’t move and persisted over the same areas for days resulting in the high rainfall and major to historic flooding.

Almost 3,300 properties were identified with damage ranging from minor to moderate and severe. The Townsville Local Recovery and Resilience Group advised that the final figures from damage assessments identified 2,063 properties with minor damage, 1,101 with moderate damage and 135 with severe damage.210

The impact of this event on insurance markets will take some time to emerge and will only be apparent in the data we obtained and research conducted to a very limited extent. The data we have obtained from insurers runs to 30 June 2019. Some claims were not settled at the time we received data from insurers, and any changes in insurers’ pricing approaches will not happen immediately and may be made in stages.

Consumer research

To help us understand the extent of, and reasons for, non-insurance in northern Australia (in chapter 12), we commissioned consumer research to complement the information that we collected from insurers.

As part of the consumer research project, we included an additional survey of both residents and small businesses within 100 km of the Townsville area.211 The findings of the research generally are discussed throughout chapter 12, however we present the findings of the survey of Townsville respondents here and the findings of the small business research in appendix D.

The methodology is explained in chapter 12.


211 The survey captured a much broader area than the specific postcodes being considered in this case study.
Townsville residents’ experiences of the 2019 floods

One-third (33%) of Townsville residents surveyed reported loss or damage caused by the floods.

Respondents’ estimates of the damage caused by the flood varied quite considerably. For 43%, their estimate was between $1,000 and $9,999. A similar proportion (37%) estimated more than that, with 15% saying it was over $100,000.

Figure 9.1: Townsville residents—estimate of value of loss or damage caused by the floods

<table>
<thead>
<tr>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $1,000</td>
<td>14%</td>
</tr>
<tr>
<td>Between $1,000 and $9,999</td>
<td>45%</td>
</tr>
<tr>
<td>Between $10,000 and $49,999</td>
<td>17%</td>
</tr>
<tr>
<td>Between $50,000 and $99,999</td>
<td>5%</td>
</tr>
<tr>
<td>Over $100,000</td>
<td>15%</td>
</tr>
<tr>
<td>Don’t know (and can’t guess)</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: All respondents with loss or damage from the Townsville floods n=111.

Insurance levels in Townsville

Around 90% of Townsville respondents affected by the floods reported that they had some insurance at the time. Seventy-one per cent had home and contents insurance, 9% had home insurance but did not have contents insurance, 10% had contents only and 10% had no insurance at all.

Two-thirds (66%) of residents surveyed who said they experienced loss or damage because of the Townsville floods had flood cover at the time of the floods.212 One-quarter said they did not, and the remaining 9% didn’t know.

The table below shows the reasons why respondents with insurance said they did not have flood cover.213 The main reason not to have flood cover was the belief that they were not in a flood zone, including for respondents that were affected by the floods.

---

212 This is all residents surveyed, not just those who had insurance.
213 These bases are small so be cautious with findings.
Table 9.1: Townsville residents’ reasons for not having flood cover with their insurance

<table>
<thead>
<tr>
<th>Townsville respondents with insurance but without flood cover</th>
<th>All without flood cover</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>20</td>
</tr>
<tr>
<td>I chose not to have flood cover because our home is not in a flood zone</td>
<td>55%</td>
</tr>
<tr>
<td>I would have liked to have flood cover but it was too expensive</td>
<td>5%</td>
</tr>
<tr>
<td>I chose not to have flood cover because we don’t live on the ground floor</td>
<td>5%</td>
</tr>
<tr>
<td>I could not get flood cover for this property</td>
<td>10%</td>
</tr>
<tr>
<td>I thought my policy covered flood (but it didn’t)</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>15%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Insured respondents without flood cover.

Claims experience

In total, 65% of affected respondents with insurance reported that they made a claim. Thirty per cent claimed on their combined policy (or both if they had home and contents with different insurers), 21% just on their home insurance and 14% just on contents.

Figure 9.2: Incidence of claiming by Townsville residents affected by the floods

Source: ACCC commissioned research, June 2019.
Base: All respondents with loss or damage from the Townsville floods who were insured (excludes respondents who did not know the dollar value of the loss and respondents who did not know if they were insured at the time) n=94.

The 33% who had insurance but did not claim were asked why. Many respondents (45%) said it wasn’t worth it because their excess was too high, 13% were worried about the effect on their premium and another 13% said they had received government assistance. Six per cent didn’t believe they would be eligible to claim.
Eighty per cent of affected Townsville respondents who made a claim said their claim was 100% successful, with 14% describing it as partly successful. Three per cent reported their claim was denied. This could mean those respondents did not have the right type of insurance to cover the damage they experienced.

<table>
<thead>
<tr>
<th>Townsville residents: the outcome of the claim</th>
</tr>
</thead>
<tbody>
<tr>
<td>Townsville respondents</td>
</tr>
<tr>
<td>N=</td>
</tr>
<tr>
<td>100% successful (paid only the excess)</td>
</tr>
<tr>
<td>Partly successful (insurer paid some of claim)</td>
</tr>
<tr>
<td>Withdrawn</td>
</tr>
<tr>
<td>Denied</td>
</tr>
<tr>
<td>I don’t know</td>
</tr>
</tbody>
</table>

Most of those who had only partly successful or denied claims had both home and contents insurance and most reported that they had flood cover. It seems therefore that most of those affected by the floods thought that they were fully insured. It is possible that some of the 20% of respondents who did not have their claim paid out in full (or who didn’t know the outcome of their claim) had their payout limited by their insurance policy.

Respondents who made a claim tended to have higher value losses (as they estimated them) than those who did not claim. As the first column of data in the table below shows, only 2% of claimants had a loss under $1,000, compared with 35% among those who did not claim.
Table 9.3: Incidence of claiming by Townsville residents affected by the floods by the estimated financial loss

<table>
<thead>
<tr>
<th>Estimate of financial loss</th>
<th>Made a claim</th>
<th>Did not make a claim</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>61</td>
<td>31</td>
</tr>
<tr>
<td>Under $1,000</td>
<td>2%</td>
<td>35%</td>
</tr>
<tr>
<td>Between $1,000 and $9,999</td>
<td>39%</td>
<td>55%</td>
</tr>
<tr>
<td>Between $10,000 and $49,999</td>
<td>25%</td>
<td>6%</td>
</tr>
<tr>
<td>Between $50,000 and $99,999</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Over $100,000</td>
<td>25%</td>
<td>3% (214)</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: All respondents with loss or damage from the Townsville floods who were insured and knew they made a claim n=92 (excludes respondents who did not know if they made a claim).

The second column of data shows the losses of insured respondents who did not claim. About one-third (35%) lost under $1,000; over half (55%) had losses between $1,000 and $9,999, and 6% lost between $10,000 and $49,999.

Only a small number (n=11) of affected Townsville residents surveyed said they did not have any insurance so caution is required when interpreting the following findings: about one-third said it was fairly, very or extremely difficult for them to fix or replace what was lost or damaged, with the remainder saying it was not very or not at all difficult. Around 70% received some government assistance, with the rest mostly using their savings to replace or fix damaged property.

Key observations from insurer data

Increasing premiums and premium dispersal

Data received to date from insurers indicates premiums for combined home and contents insurance risks have been increasing at a consistent rate over recent years, following large increases from 2008–09 to 2012–13. These earlier rises coincided with initial moves to address-level pricing and the introduction of standardised flood cover. The average premium in 2018–19 was sitting at $3,088. The postcodes of 4810 and 4812 had the highest average premiums in 2018–19, at $4,257 and $3,458. Postcodes 4814 and 4817 had the lowest, at $2,857 and $2,806.

Figure 9.4 below shows the lower decile, lower quartile, median, upper quartile and upper decile for each year, across all insurers, risk ratings, levels of excess and sum insured for home insurance (including the building component of combined). They show that 80% of home insurance premiums in the Townsville floods area were between $578 and $1,646 in 2008–09, a range of $1,068. This has increased to between $1,313 and $3,731 in 2018–19, a range of $2,418.

Interestingly, the increases in premium levels at the lower decile, lower quartile, median, upper quartile and upper decile level have all been in the order of approximately 125 to 140% over the full 12-year period. This predominantly occurred during the period from 2008–09 to 2013–14, as premiums were rising steeply. From 2013–14 the distribution of premiums remained fairly steady.

While in aggregate premium increases appear to have been of a similar magnitude for the majority of policyholders, an individual resident’s experience could be quite different. This is particularly the case for those with very high premiums. In 2018–19, most insurers’ maximum premium was between $13,000 and $19,000. This range of maximum premiums increased from between $4,500 and $15,000 in 2008–09 for most insurers.

214 The 3% who reported losses of over $100,000 but did not claim represents one person. The person explained they did not claim because the damage was not to their own property.
Figure 9.4: Townsville floods area distribution of premiums for home insurance, 2008–09 to 2018–19, real $2018–19

Source: ACCC analysis of data obtained from insurers.
Note: Values are shown across all insurers, risk ratings, levels of excess and sum insured. The box shows the middle 50% of values. The line across the box represents the median point. The line above the box extends to the 90th percentile, while the line below the box extends to the 10th percentile. Refer to page 6 for a further explanation. Home insurance also includes the building component of combined insurance.

Higher excesses

On average for combined home and contents insurance, more policy-holders are opting to set their excesses slightly higher, with the combined excess (the excess for the building component plus the excess for the contents component) moving from an average of $2,032 in 2017–18 ($1,306 for the building component and $726 for the contents component) to $2,094 in 2018–19 ($1,336 for the building component and $758 for the contents component). Figure 9.5 below demonstrates the increasing trend over the last 10 years in excess levels, with consumers progressively selecting higher excess levels as a response to manage premium affordability. The black line shows the increasing average retail premium.

In 2018–19, more than 50% of all Townsville floods area insurance policy-holders selected a combined excess of at least $1,600, and 25% of all policy holders had a combined excess level set at greater than $2,500. Consistent with the findings coming out of the survey, this will be inhibiting policy-holders from claiming on their policy for minor losses, and represents an overall reduction in the coverage insurance provides for these residents. In contrast to average premium rises, the upper decile of excess levels has continued to rise in recent years. Some combined home and contents policies in the Townsville floods area in 2018–19 had excess levels of over $10,000 and even $20,000 (which was the maximum for some insurers).

215 The combined excess amount is used, alongside the figures for both the building and contents components, to illustrate trends over time. In the event of a claim for both home and contents damage, a policy holder will generally only be required to pay the higher excess of the two and not both excesses.
Both home insurance (including the building component of combined) and contents insurance (including the contents component of combined) excesses contributed to the upward trend, as shown in figure 9.6 below. We can see that home insurance excesses experienced some sharper increases, particularly from 2011 to 2014, and on average increased to a much higher rate. Over the 12 years the average excess level for home insurance increased by about 340%, and for contents insurance by about 180%.

Average sums insured for combined home and contents (sum insured for the building component plus the contents component) had been increasing steadily from $439,926 in 2008-09 to $512,285
in 2018–19. The building component increased from $369,389 to $442,542, however the contents component experienced a small decrease over the full period, decreasing from $76,178 to $70,000.

The increasing excesses could be a response to high and increasing premiums and this represents a reduction in the overall level of insurance coverage for Townsville flood area residents.

**Flood cover**

In 2018–19 there were only around 466 policies (just over 1%) of home insurance policies (including the building component of combined) without flood cover, down from just under 20,000 (almost half of all policies) in 2008–09. This shift started in 2011–12, which coincides with the introduction of the standardised definition of flood cover where many insurers decided not to allow customers to opt out of flood cover, particularly where there was deemed to be a flood risk.

Most people in Townsville have flood cover they are unable to opt out of. The average premium for home insurance policies in the Townsville floods area without flood cover was $1,926 in 2018–19, compared with $2,423 for those policies with flood cover. In a document provided by a particular insurer it indicated that generally people with higher flood risk are less likely to take out flood cover.

Of the major insurers currently supplying insurance in northern Australia, some offer flood cover as optional (including Allianz) and for most it is mandatory (including Suncorp, CGU, QBE and RACQ).

When looking at the peril components of premiums across all insurers for home insurance policies with flood cover, 10% of these in the Townsville floods area had flood components greater than $314 a year (in some cases, much higher). It is likely that other peril components such as storm and in particular cyclone would also be pushing prices up for those policy holders with flood cover.

**Claims costs**

The total cost of claims under combined home and contents insurance products across the Townsville floods area was $249 million (from 6,577 claims) in 2018–19. This compared with just under $30.2 million (from 1,615 claims) in 2017–18. As shown in figure 9.7 below, of the 6,577 claims in 2018–19, 1,003 were for flood, 1,240 for storm and 2,968 for natural hazard (which can be one or more peril types).

---

216 Based on publicly available information in insurers’ key facts sheets.

217 We note these figures exclude claims that didn’t involve a cost, such as denied and withdrawn claims.
Figure 9.7: Townsville floods area number of claims for combined home and contents insurance, 2018–19

Number of claims

<table>
<thead>
<tr>
<th>Claims category</th>
<th>Number of Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flood</td>
<td>150</td>
</tr>
<tr>
<td>Storm</td>
<td>350</td>
</tr>
<tr>
<td>Cyclone</td>
<td>200</td>
</tr>
<tr>
<td>Fire</td>
<td>20</td>
</tr>
<tr>
<td>Storm surge</td>
<td>10</td>
</tr>
<tr>
<td>Theft, burglary,</td>
<td>5</td>
</tr>
<tr>
<td>malicious acts</td>
<td></td>
</tr>
<tr>
<td>Accidental</td>
<td>10</td>
</tr>
<tr>
<td>damage</td>
<td></td>
</tr>
<tr>
<td>Impacts</td>
<td>5</td>
</tr>
<tr>
<td>Fusion and</td>
<td>10</td>
</tr>
<tr>
<td>motor burnout</td>
<td></td>
</tr>
<tr>
<td>Water damage/</td>
<td>5</td>
</tr>
<tr>
<td>escape of liquid</td>
<td></td>
</tr>
<tr>
<td>Pet cover</td>
<td>10</td>
</tr>
<tr>
<td>Natural Hazard</td>
<td>250</td>
</tr>
<tr>
<td>Other</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Note: Other category includes unspecified loss, legal liability and legal costs, denied claims, landlord expenses and miscellaneous loss claims responses from insurers.

Based on the data provided by insurers, the proportion of withdrawn claims was a little over 10% and the proportion of denied claims was a little over 5%. This is typically lower than in previous years, however we note that just under 30% of claims were still outstanding at the end of the 2018–19 financial year in the data provided by insurers. A year after the Townsville flood event, it was reported that approximately 13% of all insurance claims (this includes motor vehicle and small business claims not just home (building) and contents) were still open, with most of these at the administration stage. IAG also reported that it had finalised 91% of repairs and Suncorp reported that 95% of flood affected home insurance customers were back in their homes.218

Figure 9.8 below demonstrates the range of claims costs paid by insurers for customer claims. We can see that a substantial number of claims attracted larger costs, with 14% of claims falling within the highest range while 35% were under $5,000.

### Figure 9.8: Townsville floods area distribution of claims costs for combined home and contents insurance, 2018–19

![Figure 9.8: Townsville floods area distribution of claims costs for combined home and contents insurance, 2018–19](image)

Source: ACCC analysis of data obtained from insurers.

### 9.3 Case study 2—Cooktown

Cooktown is a coastal town at the mouth of the Endeavour River, on the Cape York Peninsula in far north Queensland. Cooktown has a large Indigenous population with Aboriginal and/or Torres Strait Islander people making up 36.8% of the population. It also has the lowest median household (and personal) weekly income figures of all the case study areas we considered.

**Region snapshot—Cooktown (4895)**

**Demographics**

- Population—2016 Census: 4,453
- Of which, Aboriginal and/or Torres Strait Islander people—2016 Census: 1,640
- Median age—2016 Census: 40
- Median household weekly income—2016 Census: $946
- Median premium for combined home and contents insurance as a % of median annual household income: 4.5%
- Number of insurable dwellings: 1,306
- Estimated non-insurance rate for home (building) insurance: 2011–37%, 2016–36%

**Premium quartile ranges for 2018–2019—data obtained from insurers**

<table>
<thead>
<tr>
<th>Policy type</th>
<th>Lower decile 10%</th>
<th>Lower quartile 25%</th>
<th>Median 50%</th>
<th>Upper quartile 75%</th>
<th>Upper decile 90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home insurance</td>
<td>$1,021</td>
<td>$1,347</td>
<td>$1,817</td>
<td>$2,319</td>
<td>$3,051</td>
</tr>
<tr>
<td>Combined home and contents insurance</td>
<td>$1,382</td>
<td>$1,742</td>
<td>$2,225</td>
<td>$2,896</td>
<td>$3,741</td>
</tr>
<tr>
<td>Contents insurance</td>
<td>$247</td>
<td>$401</td>
<td>$604</td>
<td>$912</td>
<td>$1,124</td>
</tr>
<tr>
<td>Strata</td>
<td>$835</td>
<td>$891</td>
<td>$1,747</td>
<td>$2,529</td>
<td>$7,927</td>
</tr>
</tbody>
</table>

Note: Median annual household income is based on the 2016 Census and the median premium is based on data obtained from insurers. The number of insurable dwellings and estimated non-insurance rate is based on our methodology discussed in chapter 12. The estimated non-insurance rate across all of northern Australia in 2016 was 20%, compared to 11% in the rest of Australia.
Key observations

Steady average premiums but higher excess levels

The average premium for combined home and contents insurance was $2,456 in 2018–19, and has not risen significantly in recent years. However, similar to other areas, this followed a period of rapid premium rises, from $1,154 in 2008–09 to $2,747 in 2013–14, an increase of 138% over five years.

The average combined home and contents premium across the whole of northern Australia in 2018–19 was $2,505, with Cooktown’s average premium falling just below the region’s average. The average contents insurance premium (including the contents component of combined) in Cooktown was $539, only slightly lower than the rest of northern Australia ($567). The average home insurance premium (including the building component of combined) in Cooktown was $1,945, marginally higher than the rest of northern Australia ($1,942).

The average basic excess for combined home and contents insurance has risen considerably over the last 10 years. In 2008–09 it was $540 ($285 for the building component and $255 for the contents component) but by 2018–19 it had risen to $2,059 ($1,261 for the building component and $798 for the contents component). This is higher than the average across all of northern Australia ($1,748 which includes $1,071 for the building component and $677 for the contents component).

Figure 9.9 shows these increases over the last 10 financial years for home insurance (including the building component of combined) across all insurers. In 2008–09, 80% of policies had an excess of between $124 and $618. This range increased to $500 and $5,000 in 2018–19. Since 2016–17 the upper decile jumped from $3,111 to $5,000, which is quite a large increase for such a small period of time. The average sum insured (demonstrated by the dots in figure 9.9) also increased but only in small increments.

Policy-holders tend to increase their excess to offset increasing premiums and may also limit their sum insured for the same reason. The end result in both cases is that they are increasing the proportion of risk they are retaining.

Figure 9.9: Cooktown distribution of excess levels overlaid with the average premium and average sum insured value for home insurance, 2008–09 to 2018–19, real $2018–19

Source: ACCC analysis of data obtained from insurers.

Note: Values are shown across all insurers, risk ratings, premiums and sum insured. The box shows the middle 50% of values. The line across the box represents the median point. The line above the box extends to the 90th percentile, while the line below the box extends to the 10th percentile. Refer to page 6 for a further explanation. The black line shows the average premium and the dots show the average sum insured. Home insurance also includes the building component of combined insurance.

Cooktown’s estimated rate of non-insurance was reasonably stable over this period, dropping by a minimal amount from 2011 to 2016, but still relatively high for north Queensland at 36% in 2016.
Claims impact on premiums

In 2013–14, Cooktown had a spike in claims because of ex-tropical cyclone Ita that hit the town in April 2014. For combined home and contents insurance there were 90 claims in 2013–14 compared with the longer term average of 14 claims (total of 70 claims) over the preceding five years. Despite this there was not a jump in the average premium in the following year, of a kind we identified as occurring more generally in chapter 3. This may have been due, in part, to the fact that premiums had already risen substantially in Cooktown in each of the previous five years.

Claims costs as a proportion of premiums\(^{219}\) are generally quite low in this region, averaging 16% across the last three financial years for combined home and contents insurance.

Peril risk ratings and impact on premiums

The premium spread across Cooktown is reasonably high. To better understand the premium pricing in this region, we can compare risk factors such as cyclone and flood and how these are priced and classified for this region.

For one of the insurers in 2018–19, almost 10% of properties which it insured, for home insurance (including the building component of combined), fell within the high levels of both cyclone and flood risk ratings in Cooktown. Almost 40% fell within the low medium levels for both cyclone and flood risk ratings.

Of the properties in both high cyclone and high flood risk rating levels, average premiums were sitting at $2,849 in 2018–19 for this insurer.

Looking at the building sum insured for these policies provides us with a more complete picture of the impact of risk ratings on premiums.

Table 9.4 below shows the premiums per $1,000 sum insured and average premium in 2018–19 for those properties with the different combinations of flood and cyclone risk rating levels from this insurer.

<table>
<thead>
<tr>
<th>Flood risk rating</th>
<th>Cyclone risk rating</th>
<th>Percentage of risks</th>
<th>Average premium per $1,000 sum insured</th>
<th>Average premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High</td>
<td>9%</td>
<td>$5.09</td>
<td>$2,849</td>
</tr>
<tr>
<td>High</td>
<td>Low to medium</td>
<td>24%</td>
<td>$5.36</td>
<td>$1,764</td>
</tr>
<tr>
<td>Low to medium</td>
<td>High</td>
<td>28%</td>
<td>$4.77</td>
<td>$2,389</td>
</tr>
<tr>
<td>Low to medium</td>
<td>Low to medium</td>
<td>39%</td>
<td>$4.57</td>
<td>$1,343</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Note: Home insurance also includes the building component of combined insurance.

This shows the effect on premiums of not only high cyclone and flood risk, but also the combination of risk ratings across more than one peril. The average premium per $1,000 sum insured is relatively high across all categories particularly when compared with the average premium per $1,000 sum insured across the whole of northern Australia ($4.30) in 2018–19.

Unsurprisingly, properties with a high flood risk rating and high cyclone risk rating had the highest average premiums. Although, it should be noted that while peril risk ratings can have a significant effect on premiums, other premium components and premium adjustments can be just as significant.

---

\(^{219}\) This is the gross claims cost as a proportion of gross written premium.
9.4 Case study 3—Mackay to Airlie Beach—areas affected by Cyclone Debbie

Tropical Cyclone Debbie in March 2017 was the costliest tropical cyclone in Australia since Yasi in 2011. It first passed over Hamilton Island and the Whitsundays before making landfall at Airlie Beach, and going on to cause damage over a widespread area.

**Snapshot: Cyclone Debbie areas (4740, 4741, 4798, 4799, 4800, 4802, 4803)**

<table>
<thead>
<tr>
<th>Postcode</th>
<th>4740</th>
<th>4741</th>
<th>4798</th>
<th>4799</th>
<th>4800</th>
<th>4802</th>
<th>4803</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Mackay, Hay Point, Cape Hillsborough</td>
<td>Coppabella, Clairview</td>
<td>Calen, Saint Helens Beach, Pindi Pindi, Mentmore</td>
<td>Midge Point, Bloomsbury</td>
<td>Proserpine, Hideaway Bay, Dingo Beach, Conway Beach</td>
<td>Airlie Beach, Cannonvale, Shute Harbour, Whitsundays</td>
<td>Hamilton Island</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Demographics</th>
<th>80,089</th>
<th>7,079</th>
<th>688</th>
<th>1,058</th>
<th>9,324</th>
<th>9,832</th>
<th>1,867</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of which, Aboriginal and/or Torres Strait Islander people—2016 Census</td>
<td>4,186</td>
<td>228</td>
<td>32</td>
<td>56</td>
<td>351</td>
<td>223</td>
<td>10</td>
</tr>
<tr>
<td>Median age—2016 Census</td>
<td>37</td>
<td>43</td>
<td>47</td>
<td>47</td>
<td>43</td>
<td>36</td>
<td>28</td>
</tr>
<tr>
<td>Median household weekly income—2016 Census</td>
<td>$1,442</td>
<td>$1,348</td>
<td>$1,169</td>
<td>$870</td>
<td>$1,276</td>
<td>$1,347</td>
<td>$1,681</td>
</tr>
<tr>
<td>Median premium for combined home and contents insurance as a % of median annual household income</td>
<td>3.8%</td>
<td>3.6%</td>
<td>4.0%</td>
<td>5.7%</td>
<td>4.0%</td>
<td>3.8%</td>
<td>14.1%</td>
</tr>
<tr>
<td>Number of insurable dwellings</td>
<td>30,477</td>
<td>2,922</td>
<td>314</td>
<td>415</td>
<td>3,841</td>
<td>3,442</td>
<td>80</td>
</tr>
</tbody>
</table>

Estimated non-insurance rate for home (building) insurance: 2011—8% 2016—17%

**Premium quartile ranges for 2018–2019—data obtained from insurers**

<table>
<thead>
<tr>
<th>Policy type</th>
<th>Lower decile 10%</th>
<th>Lower quartile 25%</th>
<th>Median 50%</th>
<th>Upper quartile 75%</th>
<th>Upper decile 90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home insurance</td>
<td>$1,268</td>
<td>$1,682</td>
<td>$2,228</td>
<td>$2,925</td>
<td>$3,759</td>
</tr>
<tr>
<td>Combined home and contents insurance</td>
<td>$1,697</td>
<td>$2,152</td>
<td>$2,789</td>
<td>$3,631</td>
<td>$4,618</td>
</tr>
<tr>
<td>Contents insurance</td>
<td>$253</td>
<td>$336</td>
<td>$481</td>
<td>$755</td>
<td>$1,091</td>
</tr>
<tr>
<td>Strata</td>
<td>$900</td>
<td>$1,659</td>
<td>$3,092</td>
<td>$5,106</td>
<td>$11,726</td>
</tr>
</tbody>
</table>

Note: Median annual household income is based on the 2016 Census and the median premium is based on data obtained from insurers. The number of insurable dwellings and estimated non-insurance rate is based on our methodology discussed in chapter 12. The estimated non-insurance rate across all of northern Australia in 2016 was 20%, compared to 11% in the rest of Australia.
Cyclone Debbie damage

Tropical Cyclone Debbie formed as a low pressure system over the Coral Sea in late March 2017. An unexpected turn south during the cyclone’s final approach to the Queensland coast brought Cyclone Debbie directly on top of Hamilton Island as a Category 4 tropical cyclone, with sustained winds reaching 191 km/h and gusts up to 263 km/h. It then passed over the Whitsunday Islands with wind gusts of 165 km/h, finally making landfall on 28 March 2017 as a high-end Category 3 tropical cyclone at Airlie Beach with winds of up to 150 km/h. Cyclone Debbie weakened below tropical cyclone strength in the early hours of 29 March 2017, and then turned southeast, and produced a broad band of damaging winds and torrential rainfall from central Queensland to the southeast, also causing flooding.220

Cyclone Debbie caused significant destruction and resulted in many insurance claims. The total claims costs according to data obtained from insurers for the selected areas listed above (the Cyclone Debbie areas) across all insurance products was around $277 million in 2016–17, compared with $59.4 million in 2015–16 and almost $10 million in 2014–15.

As with any catastrophe, the total economic impact extends beyond insured losses. For instance, Queensland Treasury assumed losses to overseas and interstate tourism of approximately $150 million as a result of Cyclone Debbie.221

Key observations

Cyclone Debbie claims costs and settlement

As noted above, Cyclone Debbie caused widespread damage. In the Cyclone Debbie areas, 9,261 claims were made in 2016–17 across all insurance products222 with an average claim cost of $34,486 for home insurance (including the building component of combined), $8,425 for contents insurance (including the contents component of combined) and $101,380 for strata. The distribution of claims for home insurance (including the building component of combined), contents insurance (including the contents component of combined) and strata insurance in 2016–17 is shown in figure 9.10 below.

We can observe that the highest concentration of claims were between $1,001 and $5,000. Given the high existing excess levels in the area for that year, there were a smaller number with claims costs below $1,000 for all products, particularly strata. The average basic excess for the Cyclone Debbie areas for home insurance (including the building component of combined) was $1,312 in 2016–17, more than the average across north Queensland ($1,128) and considerably more than the average excess levels in the rest of Australia ($674). For 10% of customers, however, their building excess was over $2,074.

The postcodes of 4800, 4802 and 4803 that made the most claims in 2016–17 also sustained the highest premium increases in this case study in 2017–18.

---

221 The State of Queensland (Queensland Fire and Emergency Services), *Queensland State Natural Hazard Risk Assessment 2017*, June 2017, p. 27.
222 We note this figure excludes claims that didn’t involve a cost, such as denied and withdrawn claims.
Premiums rose significantly after Cyclone Debbie but only for some consumers

In one of the hardest hit areas of Hamilton Island (postcode 4803), premium prices increased substantially after Cyclone Debbie. Prior to Cyclone Debbie hitting the area in March 2017, premiums for combined home and contents insurance were already very high at a little over $10,765 on average in 2015–16. This increased to over $14,695 in 2017–18 and just over $15,575 in 2018–19. As shown in figure 9.11 below, the range of premiums has been increasing over the last 10 financial years, particularly in 2017–18. Similarly, the upper quartile premium in 2015–16 ($13,018) was approximately 107% higher than the lower quartile premium; however by 2017–18, the upper quartile premium had risen to $18,817, just under 165% higher than the lower quartile premium.

Source: ACCC analysis of data obtained from insurers.
Note: Values are shown across all insurers, risk ratings, levels of excess and sum insured. The box shows the middle 50% of values. The line across the box represents the median point. The line above the box extends to the 90th percentile, while the line below the box extends to the 10th percentile. Refer to page 6 for a further explanation. The black line shows the average premium.
In Airlie Beach (postcode 4802), premiums increased the year following Cyclone Debbie. In 2015–16, the premium range for 80% of policy holders was $1,525 and $4,376. This range increased to $1,568 and $4,584 in 2017–18. The upper quartile premium in 2015–16 ($3,254) was approximately 67% higher than the lower quartile premium; however by 2017–18, the upper quartile premium had risen to $3,434, almost 72% higher than the lower quartile premium.

Considering the Cyclone Debbie areas as a whole, average premium increases for combined home and contents insurance in the aftermath of Cyclone Debbie (in 2017–18) were higher (at 2%) compared with the average premiums across all of northern Queensland, which decreased slightly. However, the premium dispersal identified above for Hamilton Island, particularly for the last two financial years, is not as apparent across the broader Cyclone Debbie areas, as shown in figure 9.12 below.

**Figure 9.12:** Cyclone Debbie areas average premium and the distribution of premiums for combined home and contents insurance, 2008–09 to 2018–19, real $2018–19

Premium distributions can be influenced by customers dropping insurance and other consumers taking insurance up for the first time. After Cyclone Debbie, however, there did not appear to be any significant drop in the number of risks written for combined home and contents insurance. The total number of risks written in 2015–16 for the Cyclone Debbie areas was 25,293, decreasing slightly to 24,965 in 2017–18.

**Strata concerns**

The average strata insurance premium across the Cyclone Debbie areas increased rapidly from $3,438 in 2008–09 to $8,364 in 2018–19, a jump of almost 145% over the decade. This was despite the average basic excess for strata insurance rising fourfold, from just $193 in 2008–09 to $766 in 2018–19. In Hamilton Island (postcode 4803), the increase in average basic excess was even more pronounced, jumping from $260 in 2008–09 to $5,397 in 2017–18 but then dropping to $3,029 in 2018–19.

As noted in other case studies and chapter 3, increasing excess rates are often a response to premium pressures. A more extreme response is non-insurance. There has been a steady drop-off in strata policies since 2015–16 (so pre-dating Cyclone Debbie). The number of policies reported by insurers to us dropped substantially in Hamilton Island from 30 in 2013–14 to just eight policies in 2017–18. In 2018–19 the number of policies increased to 17 with the average premium dropping by 46% from 2017–18 to 2018–19. This also explains the drop in the average basic excess in Hamilton Island in 2018–19.
Figure 9.13 below demonstrates these trends in the written risk and premiums per $1,000 sum insured for Hamilton Island.

![Figure 9.13: Hamilton Island (4803) average premium per $1,000 sum insured and number of risks written for strata insurance, 2008-09 to 2018-19](image)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of policies</th>
<th>Average premium per $1,000 sum insured ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>40</td>
<td>4.0</td>
</tr>
<tr>
<td>2009-10</td>
<td>35</td>
<td>4.5</td>
</tr>
<tr>
<td>2010-11</td>
<td>30</td>
<td>5.0</td>
</tr>
<tr>
<td>2011-12</td>
<td>25</td>
<td>5.5</td>
</tr>
<tr>
<td>2012-13</td>
<td>20</td>
<td>6.0</td>
</tr>
<tr>
<td>2013-14</td>
<td>15</td>
<td>6.5</td>
</tr>
<tr>
<td>2014-15</td>
<td>10</td>
<td>7.0</td>
</tr>
<tr>
<td>2015-16</td>
<td>5</td>
<td>7.5</td>
</tr>
<tr>
<td>2016-17</td>
<td>2</td>
<td>8.0</td>
</tr>
<tr>
<td>2017-18</td>
<td>1</td>
<td>8.5</td>
</tr>
<tr>
<td>2018-19</td>
<td>1</td>
<td>9.0</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

This reduction in the number of strata risks reported is very concerning. Strata insurance is mandatory under state legislation. It is possible that some of the strata complexes obtained insurance through insurers not captured by our information gathering exercise, however it seems likely that at least some strata complexes in the area may be uninsured. Chapter 16 considers in more detail the challenges facing strata insurance markets in northern Australia, in particular the specific issues and market dynamics facing different types of strata properties.
9.5 Case study 4—Port Hedland

Port Hedland and its surrounds are situated in the Pilbara region of Western Australia. They are consistently among the highest average premium areas in northern Australia.

### Region snapshot—Port Hedland areas (6721, 6722)

#### Demographics

<table>
<thead>
<tr>
<th>Postcodes</th>
<th>6721</th>
<th>6722</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population—2016 Census</td>
<td>4,512</td>
<td>9,848</td>
</tr>
<tr>
<td>Of which, Aboriginal and/or Torres Strait Islander people—2016 Census</td>
<td>305</td>
<td>1,988</td>
</tr>
<tr>
<td>Median age—2016 Census</td>
<td>33</td>
<td>30</td>
</tr>
<tr>
<td>Median household weekly income—2016 Census</td>
<td>$3,104</td>
<td>$2,422</td>
</tr>
<tr>
<td>Median premium for combined home and contents insurance as a % of median annual household income</td>
<td>3.3%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Number of insurable dwellings</td>
<td>1,040</td>
<td>3,168</td>
</tr>
<tr>
<td>Estimated non-insurance rate for home (building) insurance</td>
<td>2011–17%</td>
<td>2016–45%</td>
</tr>
</tbody>
</table>

#### Premium quartile ranges for 2018–2019—data obtained from insurers

<table>
<thead>
<tr>
<th>Policy type</th>
<th>Lower decile 10%</th>
<th>Lower quartile 25%</th>
<th>Median 50%</th>
<th>Upper quartile 75%</th>
<th>Upper decile 90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home insurance</td>
<td>$1,977</td>
<td>$2,833</td>
<td>$4,017</td>
<td>$5,630</td>
<td>$8,051</td>
</tr>
<tr>
<td>Combined home and contents insurance</td>
<td>$2,521</td>
<td>$3,435</td>
<td>$4,638</td>
<td>$6,225</td>
<td>$8,870</td>
</tr>
<tr>
<td>Contents insurance</td>
<td>$306</td>
<td>$689</td>
<td>$1,019</td>
<td>$1,475</td>
<td>$1,979</td>
</tr>
<tr>
<td>Strata</td>
<td>$2,479</td>
<td>$3,140</td>
<td>$5,241</td>
<td>$16,958</td>
<td>$33,861</td>
</tr>
</tbody>
</table>

Note: Median annual household income is based on the 2016 Census and the median premium is based on data obtained from insurers. The number of insurable dwellings and estimated non-insurance rate is based on our methodology discussed in chapter 12. The estimated non-insurance rate across all of northern Australia in 2016 was 20%, compared to 11% in the rest of Australia.

### Key observations

#### High and concerning premiums

In our first interim report Port Hedland areas were identified as among the top 10 areas with the highest average annual premiums for combined home and contents insurance in 2017–18. To put this in further context, in 2018–19 the lower decile premium in Port Hedland of $2,521 for a combined home and contents insurance product was greater than the upper decile premium in Goulburn, New South Wales ($2,337). Strata insurance premiums in the area have jumped over 75% over the last 10 financial years. The Town of Port Hedland stresses that the affordability of insurance has reached unsustainable levels.\(^{223}\)

Port Hedland areas also have one of the largest premium spreads as reflected in figure 9.14 which shows that for combined home and contents insurance policies, 80% of insurance policies in Port Hedland areas paid premiums between $1,307 and $4,659, a range of $3,352 in 2008–09. This has increased to between $2,521 and $8,870 in 2018–19, a range of $6,349.

---

\(^{223}\) Town of Port Hedland submission to the NAII issues paper, pp. 1–2.
Interestingly, the lower decile premium peaked at $2,671 in 2014–15 dropping to $2,519 in 2018–19. This is possibly indicative of a decline in the number of risks written over the period, with higher priced properties dropping insurance altogether and pushing the lower decile (and maximum) premiums down. This trend is also indicative of consumers potentially adjusting their policy terms to limit premium growth and putting themselves at risk of underinsurance, discussed below.

**Increasing excesses and lowering sum insured to maintain affordability**

The average basic excess for combined home and contents also increased significantly over the last 10 financial years, from $502 to $2,356. In 2008–09 the average building excess was $392. This has since climbed to $1,904 in 2018–19. While not as significant, average excess level for contents has also jumped from $246 to $516 over this period.

Figure 9.15 shows the distribution of sum insured values for Port Hedland areas combined home and contents insurance over the last 10 financial years, demonstrating a steady increase up until 2013–14 before declining. Noticeably the upper decile of sums insured in 2018–19 was actually the lowest it has been since 2010–11.
This demonstrates that as premiums continue to rise, some policyholders are increasing their basic excess and lowering their sum insured to reduce their premiums. This not only risks underinsurance, but limits policyholders in the way they use their policies and their ability to claim for smaller losses.

**Claims costs and frequency**

Despite the very high premiums in the region, driven in large part by the cyclone components in insurers’ technical prices (discussed in chapter 4), the claims experience has been modest in the area. Claims frequency has been relatively steady throughout the period (with a few small spikes), with generally less than 5 claims for every 100 combined home and contents products supplied for each of the last three financial years.

In the period since 2008–09, claims costs as a proportion of premiums \(^{224}\) for the Port Hedland area (for all insurance products) has been quite low and averaged 12% (19% in 2018–19), compared with 24% for north Western Australia as a whole (20% in 2018–19), and 58% for all of northern Australia (98% in 2018–19).

The increasing trend for selecting higher excess amounts for combined home and contents insurance is also reflected in the data received from insurers regarding claims, showing that the proportion of claims under $5,000 has declined from 75% in 2009–10 to just over 45% in 2018–19. \(^{225}\) This has also driven an increase in the average claim cost over time from $4,262 in 2009–10 to $10,916 in 2018–19.

---

\(^{224}\) This is the gross claims cost as a proportion of gross written premium.

\(^{225}\) We note these figures exclude claims that didn’t involve a cost, such as denied and withdrawn claims.
9.6 Case study 5—Kununurra

The Kununurra case study area (Kununurra) extends inland from the Western Australian coastline around Joseph Bonaparte Gulf. It also encompasses the Ord River system, an area often identified as important to the policy objective of developing northern Australia.

**Region snapshot—Kununurra (6743)**

**Demographics**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population—2016 Census</td>
<td>6,232</td>
</tr>
<tr>
<td>Of which, Aboriginal and/or Torres Strait Islander people—2016 Census</td>
<td>1,825</td>
</tr>
<tr>
<td>Median age—2016 Census</td>
<td>32</td>
</tr>
<tr>
<td>Median household weekly income—2016 Census</td>
<td>$1,785</td>
</tr>
<tr>
<td>Median premium for combined home and contents insurance as a % of median annual household income</td>
<td>2.0%</td>
</tr>
<tr>
<td>Number of insurable dwellings</td>
<td>1,482</td>
</tr>
<tr>
<td>Estimated non-insurance rate for home (building) insurance</td>
<td>2011—24%</td>
</tr>
<tr>
<td></td>
<td>2016—30%</td>
</tr>
</tbody>
</table>

**Premium quartile ranges for 2018–2019—data obtained from insurers**

<table>
<thead>
<tr>
<th>Policy type</th>
<th>Lower decile 10%</th>
<th>Lower quartile 25%</th>
<th>Median 50%</th>
<th>Upper quartile 75%</th>
<th>Upper decile 90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home insurance</td>
<td>$702</td>
<td>$960</td>
<td>$1,305</td>
<td>$2,185</td>
<td>$3,448</td>
</tr>
<tr>
<td>Combined home and contents insurance</td>
<td>$1,074</td>
<td>$1,417</td>
<td>$1,890</td>
<td>$2,703</td>
<td>$3,682</td>
</tr>
<tr>
<td>Contents insurance</td>
<td>$184</td>
<td>$380</td>
<td>$565</td>
<td>$872</td>
<td>$1,275</td>
</tr>
<tr>
<td>Strata</td>
<td>$1,336</td>
<td>$1,956</td>
<td>$2,719</td>
<td>$4,741</td>
<td>$10,474</td>
</tr>
</tbody>
</table>

Note: median annual household income is based on the 2016 Census and the median premium is based on data obtained from insurers. The number of insurable dwellings and estimated non-insurance rate is based on our methodology discussed in chapter 12. The estimated non-insurance rate across all of northern Australia in 2016 was 20%, compared to 11% in the rest of Australia.

**Key observations**

**Steady increases in premiums and very high sums insured**

Kununurra is a region with a large premium spread but a relatively low average premium when compared with other regions in northern Australia.

The number of risks written for home insurance and combined home and contents insurance have been fairly steady in Kununurra since 2012–13, averaging around 445 for home insurance and 426 for combined home and contents, increasing slightly to 450 for home insurance and increasing to 557 for combined home and contents in 2018–19.

The average premium for combined home and contents insurance products rose steadily from 2008–09 to 2013–14, from $1,798 to $3,020. From 2014–15 there has been a decrease in the average premium, dropping to $2,199 in 2018–19, although 10% of policyholders were still paying between $3,682 and $8,895. The average premium is a little lower than that paid in northern Australia ($2,505) and well below the northern Western Australian average ($3,591) but still considerably higher than the average premium paid in the rest of Australia ($1,402).

Premiums per $1,000 sum insured are more modest—in 2018–19 these averaged $3.63 for combined home and contents insurance and $3.48 for home insurance but were rather high at $16.31 for contents insurance, compared with the northern Australian averages of $4.55 for combined home and contents, $4.86 for home insurance and $9.03 for contents respectively.

A significant reason for this are the very high sum insured levels in Kununurra for buildings. The total average sum insured for combined home and contents insurance increased consistently over the last 10 financial years. The lower decile figure increased from $245,912 to $360,000, while the upper decile increased by almost 45%, from $693,607 to just over $1 million. The main contributor to this was the growth in the buildings component. Both the lower and upper deciles of the building component
increased by about 45 to 50% over the 10-year period. The lower and upper deciles for the contents component only increased by about 17 to 29%.

The remoteness of the area is likely to be the main reason for the very large building sum insured figures. We also note that the average weekly median income in Kununurra is higher than most of the other case study areas and higher than the Australian median.

The average basic excess for combined home and contents insurance increased consistently by small amounts over the 10-year period from $397 in 2008–09 to $1,249 ($722 for building component and $527 for contents component) in 2018–19, with the exception of a larger spike between 2010–11 and 2012–13. The excess range being paid by 80% of policy holders has only slightly changed since 2013–14, sitting at $500 to $2,000.

This all demonstrates that there may not be significant affordability concerns in this region. Although the average premium is still much higher than in the rest of Australia, residents do not appear to be lowering their sum insured or increasing their excess to lower their premiums. There was, however, a slight increase in our estimate of non-insurance between 2011 and 2016.

Claims costs are low

The average claims cost in Kununurra is reasonably low compared with other regions in northern Australia. The total number of claims for combined home and contents insurance remained fairly consistent over the 10-year period, generally between 15 and 40 per year. The average claims cost for working claims (not including natural peril claims) has fluctuated over the years, with an average of $4,509 over the last 10 financial years. Compared with a region such as Alice Springs with similar average excess and sum insured levels (but a lower average premium), the average claims cost was $6,133. Natural peril claims in Kununurra are also lower. This demonstrates that claims have not been a significant expense for insurers in this region.

Another notable feature of claims is the amount of cash settlements. In the three financial years to 2018–19, 65% of claims that recorded a cost were settled with just a cash settlement. The figure is very similar across the whole 10 years. Other regions such as Katherine, Alice Springs and Goulburn (New South Wales) ranged between 20 and 30% for cash settlements. Insurers may prefer to settle claims with a cash settlement given the area’s remoteness.

Peril risks in Kununurra

The region is characterised by only a small proportion of properties being exposed to high cyclone risk, however flood risk is more widespread.

In 2018–19, for one insurer in the region, 6% of home insurance policies (including the building component of combined) fell within the low cyclone risk rating levels, a little over 40% within the low medium risk levels, 25% within the medium risk rating levels and just over 25% within the high risk rating levels. In the Port Hedland areas, for the same insurer, just over 90% of properties were in the high risk rating levels for cyclone risk, which helps explain why the premium average is much higher.

In relation to flood, 35% fell within the high flood risk rating levels, just over 20% within the medium flood risk rating levels and the remainder in the low risk rating levels.

Relatively high customer switching put downward pressure on premiums

Figure 9.16 below can provide a little more insight as to why premiums may have dropped since 2014–15. The proportion of risks that were “new” (to the insurer) increased significantly as premiums rose in the early part of this decade. While some of this growth can be attributed to the overall growth in risks written (for example, new properties being built), a large part will be the result of consumers switching between suppliers.

Also at this time, the differential between average new and renewing premiums also began to emerge. Premiums being taken up by new or switching customers were being priced substantially lower than the premiums of renewing customers. This feature was not unique to Kununurra and is considered in detail in chapter 10.
In any case, the heightened propensity to switch suppliers observed in Kununurra has led to lower average premiums, including for renewing customers. This is a good reminder of the potential for customers to achieve real savings, and enhance price competition, by considering switching insurers on a regular basis.

Figure 9.16: Kununurra average premium and number of risks written for new and renewing customers for home insurance, 2008–09 to 2018–19, real $2018–19

Source: ACCC analysis of data obtained from insurers.
Note: Home insurance also includes the building component of combined insurance.

9.7 Case study 6—Katherine

Katherine is a town situated on the Katherine River, 320 kilometres south-east of Darwin. It is the fourth largest settlement in the Northern Territory.

Region snapshot—Katherine (0850)

Demographics
Population—2016 Census 8,138
Of which, Aboriginal and/or Torres Strait Islander people—2016 Census 1,912
Median age—2016 Census 34
Median household weekly income—2016 Census $1,751
Median premium for combined home and contents insurance as a % of median annual household income 2.1%
Number of insurable dwellings 2,148
Estimated non-insurance rate for home (building) insurance in 2016 18%

Premium quartile ranges for 2018–2019—data obtained from insurers

<table>
<thead>
<tr>
<th>Policy type</th>
<th>Lower decile 10%</th>
<th>Lower quartile 25%</th>
<th>Median 50%</th>
<th>Upper quartile 75%</th>
<th>Upper decile 90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home insurance</td>
<td>$718</td>
<td>$946</td>
<td>$1,251</td>
<td>$1,821</td>
<td>$2,868</td>
</tr>
<tr>
<td>Combined home and contents insurance</td>
<td>$1,144</td>
<td>$1,484</td>
<td>$1,913</td>
<td>$2,631</td>
<td>$3,571</td>
</tr>
<tr>
<td>Contents insurance</td>
<td>$253</td>
<td>$399</td>
<td>$626</td>
<td>$846</td>
<td>$1,177</td>
</tr>
<tr>
<td>Strata</td>
<td>$2,170</td>
<td>$2,932</td>
<td>$4,430</td>
<td>$7,174</td>
<td>$8,646</td>
</tr>
</tbody>
</table>

Note: Median annual household income is based on the 2016 Census and the median premium is based on data obtained from insurers. The number of insurable dwellings and estimated non-insurance rate is based on our methodology discussed in chapter 12. The estimated non-insurance rate across all of northern Australia in 2016 was 20%, compared to 11% in the rest of Australia.
**Key observations**

**Flood risks drive high premiums**

Katherine has experienced rising premiums over a number of years. The average premium for combined home and contents insurance in 2018–19 was $2,237, although 10% of policyholders paid over $3,571 (comparably, 10% of policyholders in Goulburn, New South Wales paid over $2,337).

To better understand premium pricing movements we can examine Katherine’s peril risks and how these are priced.

Katherine has a much lower cyclone risk because it is more inland. For one insurer writing risks in the area, just under 5% of home insurance policies fell within the high risk rating levels for cyclone in 2016–17 to 2018–19. Flood risk however appears to be higher in this area; for the same insurer just under 15% fell within the high risk rating levels.

Figure 9.17 below shows the peril components of technical premiums for two of the case study areas for home insurance from 2016–17 to 2018–19 from a selection of insurers. As expected, the average cyclone technical premium component is much smaller in Katherine at around $41 per year, however the premium component for flood risk is higher at around $346 per year. So despite the lower cyclone risk in Katherine compared with coastal areas, the relatively higher flood risk drives higher premiums in this region.

![Figure 9.17: Katherine and Townsville average peril components of technical premiums for home insurance, 2016–17 to 2018–19, real $2018–19](image)

Source: ACCC analysis of data obtained from insurers.

Note: Other perils include storm surge, earthquake, hail and any other natural perils insurers consider outside of non-peril components. Not all insurers provided data for all components.

**The effect of flood risk on premiums differs considerably between consumers**

Of course, flood risk is not uniform in Katherine. The premium component for flood risks will vary significantly from property to property based on their location and characteristics. The median flood risk premium component for home insurance across a selection of insurers is reasonably low (approximately $15 a year in 2017–18 and just under $20 a year in 2018–19). But 25% of customers will have a premium component for flood risk of just over $300 in 2018–19 (this was just over $200 in 2017–18).

---

226 As outlined in chapter 4, the technical premium is the expected cost of supplying an insurance policy with a margin added for profit and/or return on capital. There are many components of the technical premium, including expected claims costs for natural perils and ‘working claims’, reinsurance costs, operating costs, commissions and margins.
Another way to understand higher premiums is to look at the different components which make up the technical premium paid by a policyholder. In this region, on average, peril components make up a large proportion of the total technical premium, closely followed by working claims and margins. For more detailed information about premium components, see chapter 4.

As shown in chapter 10, insurers often make significant adjustments to the technical premiums they calculate for each property. The premium adjustments can lead to retail premiums that differ considerably from the technical premium for a property.

To help illustrate this, we examined a number of different policies across different years, comparing the property’s flood component against the retail premium. At the extreme, the flood component of technical premiums for some properties represented around 90% of the final retail premium.

Table 9.5 below shows the significant effect a high flood risk can have on individual premiums. Examples of premiums paid by policyholders across the three financial years to 2018–19 are provided below, each with a significant flood component as part of the technical premium.

Table 9.5: Examples of high premiums in Katherine with high flood components, 2016–17 to 2018–19, real $2018–19

<table>
<thead>
<tr>
<th>Year</th>
<th>Product</th>
<th>Flood component</th>
<th>Retail premium</th>
<th>Flood proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018–19</td>
<td>Home insurance</td>
<td>$6,324</td>
<td>$9,314</td>
<td>68%</td>
</tr>
<tr>
<td>2018–19</td>
<td>Home insurance</td>
<td>$6,105</td>
<td>$8,807</td>
<td>69%</td>
</tr>
<tr>
<td>2016–17</td>
<td>Home insurance</td>
<td>$8,451</td>
<td>$13,778</td>
<td>61%</td>
</tr>
<tr>
<td>2016–17</td>
<td>Home insurance</td>
<td>$5,330</td>
<td>$6,030</td>
<td>88%</td>
</tr>
<tr>
<td>2016–17</td>
<td>Home insurance</td>
<td>$5,939</td>
<td>$6,588</td>
<td>90%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

9.8 Case study 7—Alice Springs

Alice Springs is the third largest town in the Northern Territory and accounts for approximately 10% of the population. It is situated in Australia’s geographic centre.

Region snapshot—Alice Springs (0870)

Demographics

Population—2016 Census: 19,628
Of which, Aboriginal and/or Torres Strait Islander people—2016 Census: 3,138
Median age—2016 Census: 34
Median household weekly income—2016 Census: $1,963
Median premium for combined home and contents insurance as a % of median annual household income: 1.5%

Number of insurable dwellings: 6,603
Estimated non-insurance rate for home (building) insurance in 2016: 30%

Premium quartile ranges for 2018–2019—data obtained from insurers

<table>
<thead>
<tr>
<th>Policy type</th>
<th>Lower decile 10%</th>
<th>Lower quartile 25%</th>
<th>Median 50%</th>
<th>Upper quartile 75%</th>
<th>Upper decile 90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home insurance</td>
<td>$589</td>
<td>$778</td>
<td>$1,047</td>
<td>$1,462</td>
<td>$2,147</td>
</tr>
<tr>
<td>Combined home and contents insurance</td>
<td>$978</td>
<td>$1,222</td>
<td>$1,578</td>
<td>$2,065</td>
<td>$2,688</td>
</tr>
<tr>
<td>Contents insurance</td>
<td>$193</td>
<td>$305</td>
<td>$383</td>
<td>$598</td>
<td>$825</td>
</tr>
<tr>
<td>Strata</td>
<td>$1,304</td>
<td>$1,680</td>
<td>$2,570</td>
<td>$4,219</td>
<td>$6,908</td>
</tr>
</tbody>
</table>

Note: Median annual household income is based on the 2016 Census and the median premium is based on data obtained from insurers. The number of insurable dwellings and estimated non-insurance rate is based on our methodology discussed in chapter 12. The estimated non-insurance rate across all of northern Australia in 2016 was 20%, compared to 11% in the rest of Australia.

227 As discussed in chapters 4 and 10, downward premium adjustments such as capping can mean that a technical premium component does not fully flow through to the retail premium paid by consumers.
**Key observations**

**Premiums rising for all customers, but renewing customers pay more**

Average premiums for combined home and contents insurance increased by around $640 in the decade since 2008–09 (from $1,117 to $1,757 in 2018–19); however, average premiums are lower than the average across the Northern Territory ($2,363) and northern Australia ($2,505).

Figure 9.18 below demonstrates the premium spread for 80% of policyholders across the four regions. We can see that Alice Springs has a similar premium profile to the non-northern Australian case study areas of Roma (in Queensland) and Goulburn (in New South Wales) with a much smaller premium spread, especially when compared with Katherine.

Figure 9.18: Katherine, Alice Springs, Goulburn and Roma combined home and contents insurance distribution of premiums, 2018–19

Source: ACCC analysis of data obtained from insurers.

Note: Values are shown across all insurers, risk ratings, levels of excess, and sum insured. The box shows the middle 50% of values. The line across the box represents the median point. The line above the box extends to the 90th percentile, while the line below the box extends to the 10th percentile. Refer to page 6 for a further explanation.

Another noticeable feature of premiums in Alice Springs is the difference in average premium paid by new customers and renewing customers. Figure 9.19 below demonstrates this difference for combined home and contents insurance across all insurers and highlights that renewing customers are in fact paying more on average.
Some insurers’ difference in premiums for new versus renewing customers is actually a lot bigger. For one insurer the average premium for new customers in 2017–18 was $1,371, with renewing customers paying around 35% more ($1,848). While this gap closed in 2018–19, the difference was still around 18%. This again highlights the potential for residents to receive lower premiums by shopping around and considering switching suppliers. This issue is discussed in more detail in chapter 10.

**Claims are pushing up premiums**

Unusually for a northern Australian population centre, Alice Springs has practically no cyclone, flood and storm risk. It does however have a claims cost as a proportion of premiums in 2018–19 of 52% for home insurance (34% over the last three financial years) and 17% for contents insurance, which is higher than other regions in the Northern Territory and across northern Australia.

Despite the lack of cyclone and flood risk, the average claim cost in Alice Springs for combined home and contents insurance was also higher than some regions that had higher premiums, at just under $7,000 for the last three financial years (there was a similar average over the whole decade at just over $7,000). Figure 9.20 below shows the proportion of total claims numbers and total claims costs for each claim type to provide a better understanding of the kinds of claims contributing to this higher overall average claim cost, with the average across the other case studies as a point of comparison.

---

228 This is the gross claims cost as a proportion of gross written premium.
229 We note this figure excludes claims that didn’t involve a cost, such as denied and withdrawn claims.
We can see from figure 9.20 above that the most common claims types for the last three financial years in Alice Springs have been water damage/escape of liquid, theft, burglary, malicious acts; accidental damage and closely followed by storm. 230 As a proportion of claims costs however fire, water damage/escape of liquid and storm are the most costly. Comparably across the other case study areas the biggest contributors as a proportion of claims are storm and natural hazard followed by water damage/escape of liquid, flood and cyclone. Unlike Alice Springs, the most costly claims are almost the same as the most common claims—these are natural hazard, storm, flood and cyclone.

The average sum insured for home insurance (including the building component of combined) in Alice Springs has increased steadily over the last 10 financial years, and was $576,600 in 2018–19. This is well above the average for the rest of Australia at $502,700. It is likely that being a more remote location, the cost of development and building materials are a lot higher thus why policyholders need to maintain their sum insured for a higher amount, with the consequential impact on premiums. Average claim costs for building claims may also be higher for the same reason.

---

230 Escape of liquid is where loss or damage is caused by the sudden and unexpected escape of liquid, such as leaking, overflowing or bursting from a fixed water pipe, water main, washing machine or dishwasher, sink, basin, bath, toilet, etc.
9.9 Case study 8—Roma—the impact of public mitigation

Roma is a rural town in south-west Queensland and is the largest town in the broader region of Maranoa. It has a long history of flood events because of its location along Bungil Creek, a tributary of the Condamine River. Although Roma is outside of northern Australia, it is well known as an area where large public (community level) mitigation has taken place to reduce flood risk. This case study considers the effect of this flood mitigation on insurers’ risk ratings and premiums.

### Region snapshot—Roma (4455)

**Demographics**

<table>
<thead>
<tr>
<th></th>
<th>2016 Census</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>8,486</td>
</tr>
<tr>
<td>Of which, Aboriginal and/or Torres Strait Islander people</td>
<td>615</td>
</tr>
<tr>
<td>Median age</td>
<td>34</td>
</tr>
<tr>
<td>Median household weekly income</td>
<td>$1,542</td>
</tr>
<tr>
<td>Median premium for combined home and contents insurance as a % of median annual household income</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

| Number of insurable dwellings | 3,547 |
| Estimated non-insurance rate for home (building) insurance in 2016 | 18% |

<table>
<thead>
<tr>
<th>Policy type</th>
<th>Lower decile 10%</th>
<th>Lower quartile 25%</th>
<th>Median 50%</th>
<th>Upper quartile 75%</th>
<th>Upper decile 90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home insurance</td>
<td>$618</td>
<td>$814</td>
<td>$1,047</td>
<td>$1,387</td>
<td>$1,768</td>
</tr>
<tr>
<td>Combined home and contents insurance</td>
<td>$791</td>
<td>$1,012</td>
<td>$1,341</td>
<td>$1,777</td>
<td>$2,294</td>
</tr>
<tr>
<td>Contents insurance</td>
<td>$226</td>
<td>$294</td>
<td>$393</td>
<td>$576</td>
<td>$812</td>
</tr>
<tr>
<td>Strata</td>
<td>$708</td>
<td>$803</td>
<td>$888</td>
<td>$1,281</td>
<td>$2,134</td>
</tr>
</tbody>
</table>

Note: median annual household income is based on the 2016 Census and the median premium is based on data obtained from insurers. The number of insurable dwellings and estimated non-insurance rate is based on our methodology discussed in chapter 12. The estimated non-insurance rate across all of northern Australia in 2016 was 20%, compared to 11% in the rest of Australia.

### Roma’s mitigation works

Mitigation works took place in Roma after it experienced several major flooding events in 2010, 2011 and 2012. The 2012 flood resulted in one fatality and approximately 1,028 properties experienced flood inundation, with about 580 of those properties being flooded above the floor level of the building.

Following the floods, certain insurers announced that they would no longer underwrite new policies for Roma residents until flood mitigation works were carried out. Suncorp for example had implemented a 16-month embargo on writing risks in Roma.

The local government commissioned flood studies of the Bungil Creek floodplain in and around Roma. The flood studies informed a flood mitigation strategy that recommended, among other things, the construction of flood levees and associated infrastructure to protect Roma from future flood risks and hazards. A two-stage levee construction program called the Roma Flood Mitigation Project was implemented, intended to reduce the flooding risk and in turn insurance prices for more than 500 properties.

Both stages have been completed, with stage 1 (stage 1 levee) (commencing in 2013) completed in 2014–15 costing approximately $15.6 million and stage 2 (stage 2 levee) completed in 2019, costing $8.3 million.

---


On 17 September 2019 the Queensland Government announced in a media statement that the flood risk for more than 500 Roma properties had been officially downgraded, with the approval of updated flood maps for the area.

Mitigation impacts and key observations

The number of risks written decreased following the floods

Following the flood events in 2010, 2011 and 2012 the number of risks written for combined home and contents insurance only increased slightly from 2011–12 to 2012–13. In 2013–14 they dropped from 2,248 to 2,097. One insurer had almost halved the number of combined home and contents insurance products it supplied between 2011–12 and 2013–14, but increased supply in 2014–15. The total number of risks across all insurers increased again in 2014–15 but have been dropping since.

Premium movements

The average premium for combined home and contents insurance across Roma rose from 2008–09 until 2012–13. There was a sharp rise in 2012–13 with flood ratings increasing following the flood events in 2011 and 2012.

In 2013–14 the average premium started to decrease, following the commencement of the construction of the stage 1 levee. It fell from $2,327 in 2012–13, to $2,004 in 2013–14 and $1,697 in 2014–15. This represents a 14% decrease from 2012–13 to 2013–14 and 27% decrease from 2012–13 to 2014–15. The average premium was sitting at $1,510 in 2017–18 and $1,488 in 2018–19. Since 2015–16 the average premium and the spread of premiums has been relatively stable, albeit at levels higher than before the floods.

Data provided indicates that the upper decile premium of one insurer for renewing customers with flood cover dropped from $7,867 in 2012–13 to $1,803 in 2016–17. This represents a large decrease of 77%, although it may also have been influenced by higher risk customers leaving the insurer.

Figure 9.21 below shows the average premiums for home insurance (including the building component of combined) and contents insurance (including the contents component of combined) across all insurers and the different effects the mitigation had on each type of product.

We can see that when the stage 1 levee was completed both home insurance and contents insurance premiums declined even further, with this trend continuing the year after. From 2016–17 premium prices remained fairly stable for both home and contents insurance, indicating that the completion of the stage 2 levee did not have much of an impact at the postcode level, other than perhaps keeping premiums stable. As with the completion of the stage 1 levee, premium reductions may occur in the following financial years.
Figure 9.21: Roma average premium for home insurance and contents insurance, 2012–13 to 2018–19, real $2018–19

Source: ACCC analysis of data obtained from insurers.
Note: Home insurance also includes the building component of combined insurance and contents insurance also includes the contents component of combined insurance.

Figure 9.22 below shows the premium distribution for home insurance policies (including the building component of combined) in Roma over the last 10 years. Premiums representing the highest risk properties (using the upper decile as a proxy) rose dramatically in 2012–13, before dropping following the commencement of the levee in 2013 and then the completion in 2014. Since 2015–16 the premium distribution has been steady, although this is still more dispersed than the initial distribution in 2008–09.

Figure 9.22: Roma distribution of premiums for home insurance, 2008–09 to 2018–19, real $2018–19

Source: ACCC analysis of data obtained from insurers.
Note: Values are shown across all insurers, risk ratings, levels of excess, and sum insured. The box shows the middle 50% of values. The line across the box represents the median point. The line above the box extends to the 90th percentile, while the line below the box extends to the 10th percentile. Refer to page 6 for a further explanation. Home insurance also includes the building component of combined insurance.
The average premium for properties without flood cover was lower than the average premium (for all policies) in 2008–09 to 2013–14. However, following the reduction in premiums because of the completion of the stage 1 levee, this situation was reversed. As premiums started to reduce for those with flood cover from 2013 more people opted to take it out, particularly in 2013–14 and 2014–15, and a small number were left without flood cover.

**Extent of insurer reductions in premiums**

Information we obtained from two insurers indicated that they provided public mitigation discounts of around 21 and 30% as an immediate response for new customers in Roma. Suncorp reported in a media release in 2017 that it had reduced premiums by up to 90% to reflect the reduced risks. Our analysis of Suncorp’s data confirms that for a limited number of insurance policies that were written since 2012–13, the retail premium had decreased by up to 90%.

Across all insurance products (excluding strata), Suncorp had made material reductions in retail premiums to reflect reduced flood risk for a number of its customers who had maintained insurance cover since 2012–13. Suncorp reduced retail premiums for these customers in 2014–15 by an average of 40 to 68%, relative to the premiums the customers paid in 2012–13. These reductions were maintained or increased slightly in subsequent years.

The reductions in the flood component of the technical premium (flood component) were generally higher compared with the reductions in the overall retail premium. This is because variations in retail premiums may reflect changes in other natural hazard risks, sum insured amounts, premium adjustments, other components of the technical premium or the insurer’s margins.

**Flood risk reductions and impact on premiums**

The average flood component for combined home and contents insurance across all insurers was $1,205 in 2012–13 when premiums were at their highest. This started to decline in line with premiums from 2013–14, dropping to its lowest in 2015–16 and experiencing a very slight increase in 2016–17 to 2018–19. The figure below demonstrates the overall reduction in the flood component of the technical premium as a result of the flood risk reduction by insurers and the corresponding impact on the retail premium.

---


236 As explained in chapter 4, an insurer’s first step in setting a retail premium, is to calculate a technical premium. The technical premium is the expected cost of supplying an insurance product with a margin added for profit and/or return on capital. There are many components of the technical premium, including expected claims costs for natural perils and ‘working claims’, reinsurance costs, operating costs and commissions.
Figure 9.23: Roma flood component overlaid with the average premium for combined home and contents insurance, 2012–13 to 2018–19, real $2018–19

Source: ACCC analysis of data obtained from insurers.
Note: Values are shown across all insurers. The box shows the middle 50% of values. The line across the box represents the median point. The line above the box extends to the 90th percentile, while the line below the box extends to the 10th percentile. Refer to page 6 for a further explanation. The black line shows the average premium.

This figure allows us to observe the trend of the flood component and the average retail premium across all insurers over the period from 2012–13 to 2018–19.

We can see a strong correlation between the changes in average retail premiums and changes in the flood component across all insurers, with both decreasing substantially in 2012–13 to 2014–15 and remaining relatively stable from 2015–16 to 2018–19.

We also looked at the trends in flood risk rating levels across a number of insurers. Decreases in flood risk rating levels were generally consistent with the decreases in the average retail premium and average flood component for 2012–13 to 2014–15, coinciding with the timing of the stage 1 levee.

Estimated benefits of mitigation

In a report produced by Urbis for Suncorp, dated 9 October 2014, an analysis of stage 1 of the Roma flood mitigation system was undertaken. This was structured around three elements: climate risk, elements at risk (or ‘value at risk’), and the protective capacity of mitigation investments. Evaluation was conducted over a 50-year period going forward, reflecting the long term nature of the levee structure.

Reductions in insurance premiums were included on the basis that construction of a flood levee reduces uncertainty and therefore provides greater ability by insurers to adequately and appropriately price premiums based on risk. Discounts to risk premiums were calculated on the basis of average premiums paid in 2014. A 60% reduction in insurance premiums was expected in Roma based on market information from insurers. This discount was applied to households and businesses considered at risk of flooding.

The main costs of the flood mitigation investment (stage 1 only) examined were the initial capital investment, as well as ongoing maintenance and operating costs. These totalled around $16.4 million on a present value basis, incorporating a very minimal annual upkeep cost. As noted in chapter 8, the premium benefit (decrease) was estimated at $1.56 million per annum for combined home and contents insurance products in 2014-15 compared with 2012-13 levels, following the construction of the stage 1 levee.

Premiums have remained fairly steady following the reductions in 2012-13 to 2015-16 and Roma residents are continuing to enjoy the premium reduction benefits from the Roma Flood Mitigation Project.
10. **The use of premium adjustments and their impact**

**Key points**

- In setting insurance premiums, insurers first determine a technical premium. Insurers often make adjustments to this technical premium, called premium adjustments, as part of determining retail premiums.

- We have seen insurers adjust the technical premiums for a range of reasons, including in response to competitor pricing, to manage concentration risk or exposure, and to maximise customer retention and/or profitability (via capping and cupping and premium optimisation).

- The use of premium adjustments varies significantly across different areas and by insurer. Premium adjustments are generally legitimate commercial strategies used by insurers to set a retail premium. However, we have seen that in some cases the premium adjustments can be large and increase retail premiums for consumers, and that these are exacerbating affordability issues for some consumers in northern Australia.

- First, many insurers use premium adjustments, in conjunction with explicit discounts, to set different prices for new and renewing customers. Renewing customers pay more for insurance than new customers on average across northern Australia (and the rest of Australia) even after taking sums insured into account. On average renewing customers paid between 7 and 24% more than new customers depending on the region in 2018–19.

- This differential pricing is seen across all insurers, although to differing extents, and for some the prevalence of differential pricing appears to be decreasing. However, it is still important that consumers shop around for insurance to ensure that they are not paying more than they need to.

- Secondly, insurers continue to monitor competitors’ pricing closely, and adjust their premiums in response to this. In particular, we have observed upwards adjustments where an insurer considers that they are under-priced in an area.

- Insurers also continue to monitor their exposure or concentration risk in high risk areas, or to particular peril types, and adjust premiums upwards where they wish to limit growth. We have seen that these adjustments are usually made based on high level estimates and not a reassessment of the underlying risk of the policies affected by the adjustment.

- Thirdly, some insurers take sophisticated approaches to determining premium adjustments by considering a customer’s likely loyalty and profitability. These can lead to higher premiums for consumers in higher risk areas.

- We have also seen that the use of premium adjustments, particularly capping, can decrease premiums below the technical level or reduce the impact that other premium adjustments would have on the retail premium. However the effect of premium capping is temporary, and only benefits renewing customers.

- The use of premium adjustments can potentially distort the ability of insurance premiums to act as effective risk signals, particularly where they are large and result in the retail premium diverging significantly from the technical premium.

- We consider that the negative impact on consumers arising from at least some types of premium adjustments could be reduced if measures to improve competition in insurance markets, including recommendations in this report, were implemented.

We identified that insurers’ use of premium adjustments may be exacerbating affordability issues for consumers in northern Australia, particularly those in high risk areas. We also considered that because premium adjustments moved retail premiums away from the technical premium they had the potential to distort price signals. As a result, we identified the closer examination of premium adjustments as a focus for our inquiry in 2019.
Focus area 3

Examination of premium adjustments

We will further examine the use of premium adjustments by insurers operating in northern Australia. In particular, we will consider:

- the scale of premium adjustments and their potential to distort price signals to consumers regarding risks
- the potential impact of adjustments employed to manage concentration risk and exposure, on higher risk consumers
- the extent to which insurers are discriminating between new and existing customers through premium adjustments.

This will help us to determine the extent to which premiums could be lower in northern Australia, and to consider whether there are ways in which the impact of these adjustments on higher risk consumers could be lessened.

This chapter reports our findings on this focus area. It examines the scale of premium adjustments and why insurers may use them, and how they are affecting consumers in northern Australia. It discusses the use of premium adjustments in setting premiums for new and renewing customers, before considering whether there are any ways that the negative impact of these adjustments on consumers can be reduced.

10.1 Background

How insurers set premiums

Premiums for residential home, contents and strata insurance are not subject to price regulation like some other insurance products (e.g. health insurance) or essential services like communications and energy. As a result, insurers are generally free to develop their own pricing methodologies and strategies.

In chapter 4, we identified that the pricing methodologies used by insurers are complex and each insurer’s approach differs slightly. However, broadly insurers use a three step process:

1. Determining the technical premium: the first step is setting the technical premium. The technical premium is the insurer’s estimate of the cost to provide an insurance product with a margin added.

2. Making adjustments to the technical premium (‘premium adjustments‘): the second step is to adjust the technical premium up or down for a range of factors not specifically related to the property being insured, including competitive positioning, managing costs or customer retention.

3. Setting the final retail premium: any explicit discounts or surcharges, taxes, duties or levies are applied to the adjusted technical premium to set the retail premium paid by consumers.

The following looks at each step in more detail.

Step 1: Determining the technical premium

The technical premium is an insurer’s estimate of the costs to provide an insurance product, with a margin added for profit and/or a return on capital. The greater the risk, and expected loss for a property, the higher the technical premium. As discussed further in chapter 4, the technical premium can vary between insurers. This is because insurers will use different data and models to estimate expected costs, will have different operating costs and reinsurance programs, and will have products that have different inclusions and exclusions.

A key way that insurers compete is through their ability to set accurate technical premiums. Having accurate technical premiums means an insurer is more likely to maintain a portfolio with the right ‘mix
of risks’ and operate profitably. The most difficult aspects of the technical premium for an insurer to estimate are claims costs, and in particular, catastrophe claims costs because of the size of these events and the uncertainty around their timing and impacts.

**Step 2: Premium adjustments**

Premium adjustments are common across the insurers. These adjustments often, but not always, increase premiums above the technical premium and are made for a range of reasons as follows:

- **Market adjustments**: these are made by insurers following competitor price monitoring, to manage their market position.
- **Concentration or exposure adjustments**: these are adjustments made by insurers to reduce their concentration risk, exposure, or lower reinsurance costs.
- **Capping and cupping**: these are used by insurers to manage year on year premium changes. A cap is a maximum amount (usually as a percentage of the premium) an insurer determines a premium can increase at renewal. A cup is a limit on the amount that a premium can decrease at renewal. These apply to renewing customers, but not new customers.
- **Price optimisation**: these are adjustments made with reference to particular (usually non-risk related) characteristics of a customer such as their propensity to shop around, to set premiums which they consider will maximise profitability and or customer retention.

These are each considered in section 10.2 below.

We have also considered a type of price optimisation, the use of premium adjustments to set different prices for new and renewing customers, in detail in section 10.4 of this chapter.

Premium adjustments do not directly reflect the risk of, or the cost of insuring, the individual property covered. However, they can reflect the risk to the insurer of adding the particular policy to their portfolio (i.e. via increasing exposure to particular perils or increasing concentration risk, which is discussed in more detail below). While these adjustments do not reflect the risk to an insurer to insure the individual property covered by the policy, they usually reflect reasonable commercial strategies of an insurer to manage their profit, growth and portfolio risk.

Finally, we note that premium adjustments differ from discounts or surcharges which are disclosed to a consumer such as multi-policy discounts, or no-claims bonuses. Consumers are generally not aware that insurers make the premium adjustments we are considering in this chapter.

**Step 3: Final retail premium**

The third step insurers take in setting the retail premium is to account for any explicit loading or discount, and add GST, stamp duty and any other applicable levies to reach the final retail premium charged to consumers.

**The role of insurance premiums as risk signals**

Insurance premiums can play an important role in sending risk signals to consumers. That is, the size of insurance premiums can provide a consumer with an indication of the level of risk that a particular property faces. This can be beneficial where it influences consumers’ behaviour, for example by encouraging them to undertake mitigation activity, or to avoid rebuilding, building or moving to particularly risky areas. The Natural Disaster Insurance Review described the role of insurance premiums as a price signal as follows:

> Insurance can also play a role in encouraging mitigation to reduce losses from future weather events. The price, or premium, for insurance provides signals about the level of risk from a range of hazards and gives some encouragement for risk mitigation and reduced vulnerability to loss.238

---

Insurance premiums act as a risk signal for the whole range of risks covered by the insurance product. For example, a home and contents insurance product will generally provide protection against a range of losses including theft, burglary, fire and water damage, as well as a range of natural hazards including cyclone, storm, bushfire, earthquake and flood. In the absence of component pricing, the premium for such a product only provides an aggregated risk signal and does not provide a ‘pure’ signal about the level of any single risk or even of natural peril risks as a whole. This can make it difficult for consumers to know what type of action could lower their property’s risk and their insurance premiums.

Insurance premiums can also act as a more general risk signal to industry and government where decisions about development, building standards and new property characteristics are considered. However, home and contents, or strata insurance, is not provided until developments are complete, and even then is provided to individuals and not the bodies making these decisions, making insurance premiums arguably a much less effective risk signal here. The interaction between insurance and building specifications is considered in chapter 13, while land use planning is considered in chapter 14.

10.2 Scale of premium adjustments

This section sets out our findings on the scale of premium adjustments used by insurers in northern Australia, before considering insurers’ use of each type of adjustment in more detail in section 10.3.

While most insurers acknowledged that they adjust technical premiums in some way to reach the final retail premium, some insurers provided limited data on the scale of premium adjustments used in setting retail premiums. The main reason provided for this was that premium adjustments are not made and/or recorded in a way which allowed insurers to separately identify the amount of the premium that is attributable to adjustments.

We note that we have not been able to consider the scale of premium adjustments across all of northern Australia, and only obtained detailed data for a smaller number of areas. We consider that premium adjustments in these areas are also likely to occur across other parts of northern Australia but will likely vary from the trends reported in this section. However, we have been able to report on premium adjustment trends for a selection of the insurers in some areas. We have not identified insurers where we have done this. We note that where we have anonymised insurers in the report, the labels we have given to insurers have not been used consistently throughout the report (i.e. Insurer 1 may represent different insurers when used in different places in the chapter). We note that for some insurers the scale of adjustments and other premium components reported in this chapter may be based on insurers’ estimates of the these adjustments or components. Further, as not all insurers have been able to provide all premium components, averages presented below are averages of values provided to us, and are not averaged across all policies.

In other parts of this report we have generally reported premium component trends for combined home and contents insurance products because these are the products used by the greatest number of consumers. However in parts of this chapter, we have reported premium adjustments made for home insurance together with the building component of combined home and contents insurance products. This is because there are fewer policies in the case study areas and looking at trends across both product types means we are able to consider a larger number of policies.

In this chapter we have also reported premiums trends for all case study areas, and a smaller subset of the case study areas (the selected case study postcodes), which we obtained more detailed premium data for. The selected case study postcodes are the following postcode areas; 6721 (Port Hedland), 0850 (Katherine), 4817 (Townsville), 4455 (Roma), and 2580 (Goulburn).

---

239 See recommendation 18.6: Disclose premium impacts of optional inclusions and exclusions.

240 Chapter 9 includes a detailed discussion about the case study areas.
The overall scale of premium adjustments

While we have experienced some issues in quantifying the overall scale of premium adjustments used by insurers in northern Australia, we have still been able to look closely at adjustments made by individual insurers in the selected case study postcodes. Figure 10.1 shows the average scale of premium adjustments for home insurance used by three insurers in the selected case study postcodes.

Figure 10.1: Average technical premium and premium adjustment for home insurance and the building component of combined home and contents insurance products in a selection of the case study postcodes, 2018–19

Source: ACCC analysis of data obtained from insurers.

Figure 10.1 suggests the average size of premium adjustments used across regions and insurers can vary significantly. The adjustments used by Insurer 3 are either small, or negative (working to reduce the premium to below the technical level). Insurer 2’s adjustments are larger in scale, with an upward adjustment of $440 per year on average in Roma and a downward adjustment of $640 per year on average in Katherine. The average adjustments used by Insurer 1 all increase premiums from the technical level, and can lead to the retail premiums being much higher than the technical premium in some cases. For Insurer 1, the largest average adjustment, of $750 per year in Townsville, was 35% of the average retail premium in this area.

In Port Hedland (not shown in figure 10.1), premium adjustments, on average, reduce retail premiums. As discussed later, these negative adjustments are usually the result of capping, and do not apply to new customers. This was reflected in one insurer’s policy data which showed the insurer on average used premium adjustments to reduce premiums below the technical premium in Port Hedland, but did not take on any new customers in the area in 2018–19. This is likely because the new customer premium would be closer to the insurer’s average technical premium of over $18,000.

Figure 10.2 below illustrates the distribution of premium adjustments across the selected case study postcodes for three insurers in more detail.

---

241 As Port Hedland is a less populated region we have information on fewer policies in this area.
Figure 10.2: Premium adjustment distribution for home insurance products and the building component of combined home and contents insurance products in a selection of the case study postcodes, 2018–19

Source: ACCC analysis of data obtained from insurers.
Note: Values are shown across risk ratings, sum insured and excess levels. The box shows the middle 50% of values. The line across the box represents the median point. The line above the box extends to the 90th percentile, while the line below the box extends to the 10th percentile. Refer to page 6 for a further explanation.

Figure 10.2 shows the level of adjustments can also vary significantly between customers, and that the total adjustments made by an insurer can be both positive and negative for consumers in the same area. For example, in Townsville, Insurer 3’s median premium adjustment was negative, but it has still made upward adjustments for a number of consumers, with 25% of policies being adjusted upwards by more than $290, and with 10% adjusted by over $800. Similarly for Insurer 2, while the median adjustment in Townsville was small at only $45, for some consumers in the area, premiums were adjusted upwards by a significant amount. For Insurer 2 in Townsville, 25% of premium adjustments were over $370, and 10% were more than $920.

In Port Hedland (not shown in figure 10.2), average adjustments across a number of insurers were negative across most policies, and worked to decrease retail premiums from the technical level by over $1,000.

Capping can offset other premium adjustments

Premium capping limits the amount a renewing customer’s premium can increase in a year, which can reduce the impact of changes to an insurer’s prices. Similarly, premium cupping can limit the amount that a renewing customer’s premium can decrease in a year, and reduce the benefit that flows to a consumer because of a price decrease by the insurer.

Capping, in particular, can make it difficult to see the impact that other types of premium adjustments are having on the final premium paid by the consumer. To address this, we have considered the overall scale of premium adjustments separately from the capping components in this section.

Figure 10.3 below shows the average premium adjustments made in the selected areas by two insurers, when the effects of capping are separated out. It shows that where capping, which is temporary and only used for renewing customers, is excluded, average premium adjustments can increase. For example, for Insurer 1 in Townsville, excluding capping from the average of premium adjustments results in the average premium adjustment increasing from around $60 to around $340.
The use of capping and cupping by insurers is discussed in more detail in section 10.3 below.

In summary, the level of premium adjustments used by insurers can vary significantly across insurers, regions and individual customers. For at least some consumers, premium adjustments can make up a significant proportion of the total retail premium. The following sections consider the use of different types of adjustments by insurers in more detail.

10.3 Insurers use different types of premium adjustments

Insurers make adjustments to the technical premium for a number of different reasons.

This section looks at examples of the use of each type of adjustment by insurers, and where possible provides additional detail on the scale of the adjustments. As noted above, the types of premium adjustments we consider in this section are market adjustments, concentration or exposure adjustments, capping and cupping, and price optimisation.

We also note that the distinctions between these types of premium adjustments are not always clear. An insurer’s adjustment of a technical premium can be driven by more than one of these considerations.

Market premium adjustments, as well as capping and cupping, can also be considered as specific manifestations of price optimisation. The discussion on price optimisation focuses on those premium adjustments primarily made with reference to the characteristics of a customer, rather than as a direct response to competitor actions (market premium adjustments), or the expected impact on the customer of competitor pricing or significant changes in premiums (capping and cupping premium adjustments).

Market adjustments

In chapter 7 we found that insurers closely monitored competitors’ pricing and adjusted their own pricing to maintain or achieve their desired market position (market adjustments).

We also found that market adjustments often increased premiums in higher risk areas where insurers increased premiums to match competitors. This was because insurers generally did not seek to compete on price to win market share in these areas due to concerns about their level of exposure and concentration risk. We considered this was an unusual competitive dynamic. Where insurers make
this type of upwards adjustment to avoid being priced below competitors in a high risk area, these adjustments can be similar to concentration or exposure adjustments discussed in the next section.

We have also seen that insurers may use competitor price monitoring as an indirect check on the accuracy of their own pricing methodologies and risk assessment. Setting premiums for catastrophe risk can be uncertain, and competitor prices are used by some insurers as a way to check their own assessment of catastrophe risk.

Documents from a number of insurers showed that they undertook processes of monitoring competitors and adjusted their prices in response to competitors’ prices, to maintain or change their desired position in the market. The following example from early 2019 further illustrates this.

**Box 10.1: Market premium adjustments in north Queensland**

Internal emails from one insurer in early 2019 provide an example of how insurers may adjust premium in response to competitive prices. Competitor monitoring showed that the insurer was the cheapest in Townsville 35% of the time, and cheapest in Cairns 35% of the time. In response to this, a senior manager at the insurer stated:

‘Have a read of the latest report … on our price competitiveness. The picture in Queensland is pretty ugly! How difficult is it for us to put through just a simple base rate increase into FNQ [far north Queensland]?’

Subsequent emails indicate that the insurer implemented an increase of the cyclone component of premiums of about 20% in Queensland. The insurer noted that the ‘cons of this approach’ were that it may overcharge inland Queensland (although considered that this would be ‘minimal’). This was implemented as a ‘quick and rough temporary fix’ until a full review was conducted.

Over the course of the inquiry, we have seen evidence of many insurers making premium adjustments in response to competitors’ pricing. However, only some were able to provide us with detailed data on how these types of adjustments impacted consumer premiums. Figure 10.4 indicates the average scale of premium adjustments for building insurance, used by one insurer between 2016–17 and 2018–19.
Figure 10.4 suggests market adjustments can increase premiums for consumers by a significant amount. In Townsville, Katherine, Roma and Goulburn the average size of the market adjustments was between around 20 to nearly 70% of the retail premium. Port Hedland was an exception to this, and in this area market adjustments have led to lower average premiums for customers of the selected insurer.

As noted above, we have seen many examples of insurers making market premium adjustments in northern Australia. The examples above suggest that the scale of premium adjustments for market reasons can often increase premiums significantly, particularly in some areas. We note though that the use of capping can mean that when considered as averages across all consumers, total premium adjustments in these areas may not appear to be as large as the market adjustment.

Insurers monitor each competitor’s pricing, and we have seen evidence to suggest most insurers do adjust premiums for competitive reasons. We consider that adjustments made in the rest of northern Australia would likely show similar trends to those observed above, although there will of course be variations between regions and insurers. Also, as many of these adjustments are made as a percentage increase to the technical premium, they will have a larger impact on those with higher premiums. As customers in northern Australia are more likely to have higher premiums compared with customers in other parts of the country, they are likely to be impacted by these adjustments to a greater extent.

**Managing concentration risk and exposure**

A second reason insurers adjust premiums is to manage concentration risk or exposure. Concentration risk occurs when an insurer considers it has too much risk in an area, such that if there were a catastrophic event, the loss to the insurer would be unacceptable. Exposure is a measure of the amount of risk that an insurer has in an area, or to a certain type of risk.

Premium adjustments to manage concentration risk or exposure occur where insurers increase their premiums above the technical premium to decrease the amount of risk they have in a particular area, or of a particular type. These types of adjustments are made to:

- **lower concentration risk**: Insurers will often increase premiums to reduce their concentration risk in an area that they consider to be higher risk
- **limit exposure**: In areas where an insurer may not have a high number of policies, it may still wish to reduce its exposure in the area if it is outside of its ‘risk appetite’. Again, insurers will often increase premiums to reduce exposure in particular areas
- **reduce reinsurance costs**: Insurers may make adjustments to premiums to reduce their reinsurance costs or address their overall risk profile to assist when negotiating their reinsurance program and rates.

We have seen that all insurers monitor their exposure to perils and in geographic areas, as well as their concentration risk. Insurers have reported that they monitor data which allows them to assess their exposure or risk concentration in a particular location or exposure to certain perils, to ensure that they remain within the risk appetite of their business. Insurers also monitor exposure levels across all of Australia to ensure that they remain within the limits of their reinsurance programs and are able to purchase additional coverage if required.

We have also seen a number of examples of upwards premium adjustments being used as a way to manage exposure or risk concentration. For example:

- In describing how it managed exposure and concentration levels one insurer stated that its risk management principles ‘include seeking to avoid concentrations of high risk exposures. In the context of ongoing climate change, [the insurer] has limited appetite for concentration risk arising from natural perils and risk indicators monitor this accordingly.’ Specifically, the insurer monitored its share of high peril risk customers within particular CRESTA Zones242, and where it reaches a level above its risk appetite it will consider ‘implementing embargos and/or price changes to ensure the portfolio returns to risk appetite levels’.

---

242 CRESTA Zones are Catastrophe Risk Evaluation Standardising Target Accumulations Zones. They are geographic areas used by insurers and reinsurers internationally that usually include a number of postcode areas.
Another insurer noted in a reinsurance strategy that they had a preference for ‘large volume, small risks which are independent and not exposed to undue accumulation risks’ and as a result ‘…Where a risk is not desirable to accept and is not able to be declined application (either through regulation of public perception), price may need to be used to discourage the take up of cover by those risk’.

Another insurer found that after updating its cyclone models and pricing approach, it had seen above average growth in areas with high cyclone risk, particularly in Port Hedland/the Pilbara and Mackay. It proposed that to deal with this in the short term it would increase new customer premiums, capping levels for renewing business in high risk areas only. This was done while they were undertaking a longer term review of its cyclone rates and was informed in part by the early indications from that review.

The examples in boxes 10.2 and 10.3 below provide a further illustration of where insurers’ concerns around concentration risk or exposure in high risk areas in northern Australia have led insurers to increase premiums.

### Box 10.2: Concentration adjustments in north Queensland

One insurer increased its prices in Mackay and Townsville following higher growth in the area which increased the insurer’s level of cyclone risk which it identified in catastrophe exposure modelling undertaken as part of its reinsurance management strategy. Following further investigation the insurer found that ‘…of the customers that do see premium [i.e. those whose quote was not ended prior to being finalised] we have a conversion rate of 54% which is the highest in the country and compares to a 40% average saw-premium conversion for Aus. This would indicate that there is room to increase the rates here’.

The insurer also considered that increases in the area were justified because, ‘From a concentration risk point of view, it makes sense for us to start incrementally charging more for clients in areas driving our [reinsurance] premium.’ Internal emails shows that staff at the insurer debated a 10 to 20% price increase, noting that ‘in the absence of adequate claims data this is not a scientific process’ but also that high conversion ratios, and the impact that the mix of business would have on their reinsurance cost, an increase of 10% would be justified. The insurer determined to increase premiums for Mackay and Townsville by 10%.

These examples suggest that concentration adjustments, like some of the market adjustments discussed above, are not based on a detailed reassessment of the underlying risks. However, it is not always feasible for insurers to undertake detailed analysis where they have identified a possible issue with their premium pricing, and these types of adjustments are a way to quickly respond to issues they have identified through monitoring the market.

Insurers often look to the proportion of customer quotes that are accepted (and other similar measures) instead. If customers appear to be accepting the insurers’ quotes at a higher rate than expected, insurers can interpret this as an indication that their quoted premiums are ‘too competitive’.

### Box 10.3: Premium adjustments to manage flood risk

We have also seen another insurer increase premiums in high flood risk areas to ‘de-risking high flood risk exposure in Bundaberg and [the] Northern Territory’. In late 2017, the insurer implemented a price change to high-flood risk properties in the Northern Territory. The insurer considered that the premiums it was offering were below the technical rate and were ‘extremely competitive’ in the market. For these high flood risk properties, the insurer made premium adjustments to ‘address the anti-selection risk as a result of the extremely competitive prices’. The market adjustments increased premiums by $2,260 on average across Katherine, with the maximum increase being nearly $2,950.243

---

243 ACCC analysis of data provided by insurers.
Capping and cupping

As noted above, common types of adjustments that insurers make to the technical premium are capping and cupping adjustments. Capping is used to limit the amount that a retail premium can increase in a single year for a renewing customer. In this way it operates like a ‘negative’ premium adjustment as it lowers the retail premium a customer would otherwise pay for insurance.

‘Cupping’ or ‘collaring’ is a limit on the amount that a retail premium can decline in a year, for example, as a result of the insurer introducing new risk modelling. In this way it operates as a ‘positive’ premium adjustment, because it increases the retail premium a customer would otherwise pay for insurance.

We have seen many examples of insurers capping premium increases which can benefit renewing customers by decreasing year on year price increases or ‘price shock’. However, insurers use capping and cupping for commercial reasons.

Reasons insurers use capping and cupping

Insurers have indicated that they use capping and cupping to smooth premium increases from year to year and reduce price shock to renewing customers. One insurer described its rationale for capping and cupping as follows, ‘Customers do not typically expect a large change in price if they have not changed their risk attributes. In order to mitigate against customer price shock [due] to large year on year price changes, capping and cupping will limit the extent of price change’.

A primary reason that insurers use capping is to retain renewing customers, who may switch to another insurer if faced with large premium increases. For example, in 2018, one insurer amended its use of capping when it found its retention was being impacted when ‘too many customers’ were getting premium increases of more than 10% and that these customers were more likely to cancel or not renew their cover with the insurer.

The reasons for the use of cupping are less clear and we have seen fewer examples of insurers discussing its use. Some insurers use cupping to maintain their relationships with intermediaries as lowering premiums too quickly would reduce the size of commissions intermediaries received.

While the use of capping can benefit some consumers, we note insurers do not necessarily apply capping on an equal basis across all policies. We have seen that a number of insurers conduct detailed modelling to determine the level of capping that will apply to different customer groups. For example, one insurer recently described the following method for determining premium adjustments:

> The most profitable policyholders are implicitly “protected” by the current pricing approach, and their potential premium increases are limited to ensure a higher likelihood that they will renew. To minimise premium volatility for our customers, both the potential decreases (cupping) and increases (capping) are reduced to between 5% and +20%.

Internal emails from another insurer show that the expected performance of policies is considered through looking at the combined operating ratio in determining the level of capping that will apply to a policy, with smaller percentage caps (i.e. a cap which would lead to a lower year on year premium increase) being used for more profitable segments. A similar approach, from a different insurer, is explained further in box 10.4.

---

244 See chapter 6 of the report for further information about the combined operating ratio.
Box 10.4: Segment based approach to capping

In 2018, one insurer described using a ‘segment based approach to capping’.

Under this approach the insurer allocated customers to different profitability and price sensitivity groups. It appears that price sensitivity was primarily based on age and the length of time a consumer had been a customer of the insurer. Those who had been a customer with the insurer for four or more years, and were over 40 years of age, were rated as the least price sensitive, and those younger customers who had been a customer of the insurer for a shorter time were seen as more price sensitive.

Customers were then placed into five groups, such that the least price sensitive and least profitable customers had higher percentage caps applied at renewal. The most price sensitive and most profitable customers had lower percentage caps applied, so that they would receive smaller increases at renewal. High flood and bushfire risks were rated the least profitable segments. Figure 10.5 below shows how capping was applied to each of the five segments, and the price increase that would flow through to the same consumers if the same ‘raw price increase’ was applied.

Figure 10.5: Example of an insurer’s use of capping for different consumer groups

Given the profitability of insurers in northern Australia is likely to be poorer than it is in lower risk areas (as shown in chapter 6), it is likely that the extent of percentage capping used in northern Australia for a given percentage increase in retail premiums will be smaller than the rest of Australia. This is supported by our findings on the scale of capping discussed below.

Further, the benefits of capping for renewing customers’ premiums can sometimes be offset by the use of differential pricing, where renewing customers are charged more than new customers with a similar risk profile. This is discussed in more detail in section 10.4 below.

Examples of capping and cupping adjustments in selected areas

Capping

Figure 10.6 below shows the average scale of capping adjustments used by a number of the insurers in a selection of the case study areas. It shows that the extent of capping is generally greater in higher risk areas that have seen larger scale premium increases as insurers have developed their pricing of catastrophe risk. The average size of capping premium adjustments in an area will vary with time, and as they are used to manage the impact of premium increases, they depend upon when insurers have implemented changes to their pricing methodology.

---

245 Assuming that the same consumers were otherwise facing similar increases.
We note that capping premium adjustments are largest in Port Hedland, which has very high cyclone risk, where the average downward adjustment applied in the region since 2014–15 has been in excess of $2,800 a year. Capping in other regions is not as significant, but is larger in Townsville, which is also exposed to cyclone risk, and Roma which has some high flood risk properties. This is in contrast to the scale of capping applied in Goulburn, which is less prone to natural hazards. Capping in Katherine, parts of which are flood prone, has varied across years, which likely reflects insurer’s updating their pricing models prior to 2012–13 (when many insurers introduced address based flood pricing), and again prior to 2016–17.

Figure 10.6: Average capping adjustments in the selected case study postcodes for home insurance products and the building component of combined home and contents insurance products, 2014–15 to 2018–19, real $2018–19

Source: ACCC analysis of data obtained from insurers.

Capping premium adjustments are intended to slow, but not avoid, premium increases for renewing customers. Interestingly, the average size of capping premium adjustments does not appear to be reducing over time across the selected areas. This suggests that underlying technical premiums are continuing to rise.

**Cupping**

We have less data from insurers on the extent of cupping, and are not able to look at how its use has changed over time. While it does not appear that insurers use cupping to the same extent as premium capping, we have seen that its use can contribute to higher retail premiums for some consumers.

For example, where premium cupping adjustments were made across the selected case study postcodes, they were $230 on average. They were most significant in Port Hedland where they were around $810 a year on average, followed by Townsville where they were around $330 on average. It appears those consumers affected by premium cupping can be paying much more than they would if decreases in technical premiums were passed on to them.

Recently, one insurer decided to implement a premium ‘base rate’ decrease which led to a 4.3% reduction in premiums. However the use of cupping reduced the benefit that flowed through to existing customers of the premium decrease, with the insurer setting a cupping rate at 1% (increased from 0%). The insurer calculated that this meant that only 30% of the premium reductions flowed through to renewing customers. Overall, the average premium reduction for new customers was 4.3%, but only 1.2% for renewing customers because of the effect of cupping.
Price optimisation

A final type of premium adjustment that we have not commented upon previously are adjustments made to ‘optmise’ a premium (or premium optimisation). One insurer described price optimisation as taking a selection of available options and goals, such as maximising sales, profits or making consumers happy, and ‘using maths and data’ to find the option that best meets a particular goal. Another insurer described optimisation as follows, ‘Price optimisation is something that is widely used in the insurance industry and can take many forms. In principle price optimisation is a form of (limited) cross-subsidy between customers to ensure that we find the optimal balance between growth and profitability on a sustainable basis’.

Some insurers have complex processes in place to undertake premium optimisation. In describing its pricing, a different insurer described ‘demand side modelling’ which it undertook. This involved using quote data from other insurers to determine a ‘market premium’ for its own policies. In setting premiums the insurer stated that it set the full technical premium for high peril risks (the top 5% for each peril), and for other BAU ['business as usual'] risks, the insurer aims to move towards the full technical premium, but it tempers increases in competitive segments where or where retention rates are relatively low. It notes that cross-subsidies are created in this process.

The same insurer also described using a ‘segmentation approach’ to set retail premiums, ‘[The segmentation approach...]is about attributing claims and non-claims costs to the individual policies and analyse the extent of differences to the current book premiums (i.e. [combined operating ratio] view)...The profitability is considered in conjunction with competitive position (CPI) to reach a decision on desired price change in each segment’. The figure below shows how it targets larger increases at unprofitable customers where its premiums were overly competitive, and decreases at more profitable segments where it was offering less competitive premiums.

Figure 10.7: Example of use of price optimisation

Another insurer described a sophisticated approach to price optimisation:

In the process of pricing new business and renewal policyholders, the current pricing approach considers the policy’s current year expected profitability. This is then projected forward for the next five years with the policyholders expected year-on-year renewal rates (a terminal value is also calculated for years > 5). This five year (plus terminal value) expected profit is then turned into a Net Present Value (NPV) which is used to calculate an expected lifetime profit at a policy level.

Another form of price optimisation we have seen is the use of customer banking data in setting insurance premiums.
Box 10.5: Use of customer data

In 2018, in a document prepared for reinsurers, one insurer explained its use of its customer banking data in its insurance business. It noted that the banking data included:

- spending behaviour, including premium paid to other personal lines insurance companies
- risk profile
- policies held with other companies
- a customer’s year to year retention and level of loyalty
- insights gained from customer profiles and behaviour.

The insurer also explained its use of customer banking data to predict the likelihood of a customer defaulting on a credit product, which it considered a highly predictive rating factor. The insurer stated this had:

resulted in customers’ premium reflecting the claims risk inferred by their performance across all of their [associated banking] products holdings and not merely their [insurance] product.
Leveraging insights from the customer data to differentially price and select customers across all portfolio segments is a significant competitive advantage... [in the insurer’s view this] has been very successful, having a positive impact on all policy metrics, especially loss ratio and retention.

We note that use of customer data is disclosed in the Product Disclosure Statement (PDS) for the insurer’s products. However, it is not immediately clear from the PDS and the insurer’s statements about how customer information is used, and that this information could impact their insurance premium.

10.4 Premium adjustments for new and renewing customers

Insurers set different premiums for new and renewing customers in two ways.

First, insurers provide explicit discounts for new customers, while others offered explicit ‘loyalty discounts’ for renewing customers. In some cases, an insurer provided both types of discount (these are considered in chapter 4).

Secondly, insurers make adjustments to premiums for new and renewing customers in a way which results in higher premiums for renewing customers and lower premiums for new customers. This type of differentiation between new and renewing customers is often referred to as a ‘loyalty tax’. These types of premium adjustments are another example of price optimisation used by insurers.

This section examines the extent of differences in prices for new and renewing customers in insurance in northern Australia, and the reasons that insurers differentiate between them. We note that it is not always possible to attribute the difference in premiums to implicit adjustments or explicit discounts and surcharges.

Overall, we have found that insurers do tend to set higher premiums for renewing customers than for new customers, but that at least some insurers appear to be moving away from this practice.

Previous consideration of new and renewing premiums

The use of different premiums for new and renewing customers in insurance has been considered most recently in Australia, by the New South Wales Emergency Services Levy Insurance Monitor (ESLIM).

In 2018 ESLIM found evidence that, collectively, insurance companies are charging renewing customers more than new customers for combined home and contents insurance products in New South Wales.
It observed that, on average, renewing policies pay 27% or $355 more on average, each year. ESLIM found that part of the reason for different premiums between new and renewing customers may have been that there were increases in the sum insured values for renewing customers from year to year.

In 2019, ESLIM required insurers to include the price of the previous year’s policy alongside the new premium for all home insurance renewals in New South Wales. ESLIM noted that the reform will ‘enable consumers to see at a glance what they paid last year, and how it compares with the renewal price being offered this year.’

While the disclosure is only mandatory in New South Wales, ESLIM understood that some insurers have implemented it nationally.

The use of different premiums for new and renewing customers in insurance has also been considered in the United Kingdom by both the Competition and Markets Authority and the Financial Conduct Authority, who both found that insurers were charging existing insurance customers higher premiums compared with new customers.

The Competition and Markets Authority has proposed reforms including giving people more help to get better deals and switch insurers, considering pricing regulations to protect vulnerable consumers and attempting to match price data to better understand which consumers are most significantly disadvantaged by higher premiums for existing customers. The Financial Conduct Authority has proposed a requirement that insurance companies are not allowed to offer a renewal price that is higher than the equivalent new business price for that customer, for retail home and motor insurance products. The Financial Conduct Authority believes that this intervention is required to address the issue of insurance companies gradually increasing the price for renewing customers year on year. The Financial Conduct Authority is currently consulting on this proposal.

The ACCC has also recently considered the use of loyalty taxes in the retail electricity pricing inquiry, the residential mortgage price inquiry, the foreign currency conversion services inquiry, the inquiry into the National Electricity Market and the home loan price inquiry.

**New and renewing customers’ premiums**

**Renewing customers paid higher premiums in 2018–19**

In 2018–19, premiums for renewing customers for combined home and contents products were, on average, higher than premiums for new customers in both northern Australia and the rest of Australia.

As shown in figure 10.8 below, in 2018–19 renewing customers paid on average, $255 more than new customers in north Western Australia, $458 more in the Northern Territory, and $369 per year more in north Queensland. In all cases this is more than the average difference in the rest of Australia, where renewing customers pay $241 more than new customers.

In considering average premiums for new and renewing customers we note there may be other differences between the characteristics of the two groups that influence premiums, such as differing risk levels and excesses. We have directly considered differences in sums insured between the two groups in some places in the analysis.
As shown in table 10.1 below, premiums for renewing customers are on average between 7 and 24% more per year for combined home and contents insurance products. Although the percentage differences between new and renewing premiums are smaller in some parts of northern Australia on average, the difference in dollar terms is larger in northern Australia due to higher premiums.

### Table 10.1: Average premiums and difference in premiums paid by renewing and new customers, for combined home and contents insurance products in 2018–19

<table>
<thead>
<tr>
<th></th>
<th>North Western Australia</th>
<th>Northern Territory</th>
<th>North Queensland</th>
<th>Rest of Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewing customer premium</td>
<td>$3,695</td>
<td>$2,405</td>
<td>$2,560</td>
<td>$1,492</td>
</tr>
<tr>
<td>New customer premium</td>
<td>$3,440</td>
<td>$1,946</td>
<td>$2,192</td>
<td>$1,251</td>
</tr>
<tr>
<td>Difference</td>
<td>$255</td>
<td>$458</td>
<td>$369</td>
<td>$241</td>
</tr>
<tr>
<td>Difference as a percentage of average new customer premium</td>
<td>7%</td>
<td>24%</td>
<td>17%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

### How the difference between new and renewing premiums has changed over time

We also looked at the differences in premiums of new and renewing customers over time, instead of just 2018–19. We did this by looking at combined home and contents policies, in a sample of postcodes in northern Australia.

In figure 10.9 below, we specifically considered combined home and contents policies, with a sum insured for the building component between $300,000 and $800,000, from 2008–09 to 2018–19. This shows that the difference between new and renewing customer premiums increased significantly between 2008–09 and 2012–13, but has stayed relatively stable between 2012–13 and 2018–19. The large increase between 2010–11 and 2012–13 may, at least in part, reflect the rapid increase in premiums across northern Australia during this period. That is, between 2010–11 and 2012–13 combined home and contents increased by about 51% in real terms. When considering the difference in premium as a percentage, we also saw a significant increase in the difference as a percentage of premium from 1% in 2011–12 to 7% in 2012–13.
In figure 10.10 below we can see that on average, in northern Australian case study areas, renewing customers’ average premiums have been higher on average for combined home and contents policies than new customer premiums between 2008–09 and 2018–19, for products with building sums insured between $300,000 and $500,000.

In the same period, for customers with building sums insured between $600,000 and $800,000, renewing customers have generally had higher average premiums than new customers, particularly in more recent years after average premiums (for all customers) had risen considerably. However 2018–19 new customers paid more than renewing customers for the first time since 2011–12.

Source: ACCC analysis of data obtained from insurers.
Note: Limited to products with sums insured of between $300,000 and $500,000, and $600,000–$800,000 for the building component of combined home and contents products.
Differences between new and renewing premiums vary between insurers

In figure 10.11 we can see that in northern Australia, all insurers on average charge renewing customers higher premiums than new customers for combined home and contents insurance products. Overall, the average difference was $334 a year. However, the difference between new and renewing customer premiums differed significantly between insurers, ranging from an average of $69 to $508 a year. The insurer with the highest average difference noted in a board paper that its new business premiums are less than its renewal premiums across their home and contents products.

Figure 10.11: Average premiums paid by new and renewing customers for combined home and contents policies in northern Australia, 2018-19

Source: ACCC analysis of data obtained from insurers.

Are insurers closing the gap between new and renewing premiums?

The difference between premiums for renewing and new customers across selected northern Australia postcodes was lower in 2018–19 than 2012–13, as seen in figure 10.12 below. We found that in the northern Australian case study postcodes, renewing customers pay $152 a year more on average than new customers for a combined home and contents policy. The largest observed difference was 2014–15 where renewing customers paid $250, or 9%, more.
This trend is consistent with some insurers rolling back the use of premium adjustments that favoured new over renewing customers, because of concerns about threats to their profitability. These insurers generally did not want to lose their loyal renewing customers who are generally the most profitable.

Two insurers in particular were considering not discounting for new customers, and as a result pricing these policies closer to true technical cost. This is illustrated by the following examples:

- one insurer noted that the ‘current price driven growth play book is damaging the long term health of our customer base.’ A manager at the same insurer did not want that insurer’s pricing to be ‘interpreted as a “loyalty tax”,’ preferring to focus on ‘pricing on risk information only (no elasticity effect).’
- another insurer identified that ‘new business [was] priced incorrectly … leading to profitable customers cross subsidising unprofitable customers [and] over time, we lose profitable customers and gain more unprofitable customers leading to a cycle of rate increases.’

We also suggest some insurers may have strategies in place to reduce both deliberate and unintentional cross subsidisation. For example:

- in early 2019 one insurer was considering adopting principles to limit cross subsidisation in the future. In an internal document discussing the issue, the insurer stated that they were cognisant that ‘many common pricing practices such as renewal capping can lead to prices for an individual customer deviating from the best risk view. The extent to which a customer’s price can deviate from this best risk view should be limited.’ The insurer also noted that ‘cross subsidies are sometimes created in the opposite direction for commercial reasons’, with ‘discounts to attract new business customers’
- one insurer noted that ‘recent price increases have focussed on new business to limit impacts on existing policyholders’
- another insurer ran an initiative that sought to reduce ‘the unintended degree of cross subsidisation within a product for new business prices … by provisioning for the true cost of risk at the time of risk acceptance,’ identifying that ‘unintended cross subsidies are the primary factor in driving the unexpected range of loss ratios.’ The insurer also updated its pricing principles and noted that ‘a customer should not be able to receive a cheaper price for a new business for a risk that is already insured’
- an insurer recognised that it ‘need[s] to review pricing principles and mechanisms to ensure … [it is] delivering equitable outcomes for customers’ and was ‘reviewing our current new business v renewal price position across all states and making recommendations/changes based on findings.’

Source: ACCC analysis of data obtained from insurers.
insurer is also mindful that it is not appropriate for a customer to be able to receive a lower premium for the same policy by taking out a new policy with the insurer instead of renewing with the insurer.

- A manager at another insurer ‘acknowledge[d] that a customer applying for a new policy and receiving a lower new business premium than they received for renewal is not acceptable.’

### The causes of differences between new and renewing customer premiums

Some insurers acknowledged that they apply premium adjustments to their retail premiums for new customers to meet business objectives:

- One insurer is able to ‘price competitively’ by ‘vary[ing] market price within a reasonable range for both new and renewing customers to ... meet portfolio objectives and compete against other leader brands.’
- Another insurer noted in a board paper that ‘typically new business is highly elastic to price increases whereas renewals are relatively inelastic.’
- A third insurer utilised renewal pricing commercialisation to find the optimal ‘renewal target premium is achieved by changing the cap and cup levels of each segment.’

As well as premium adjustments, we saw in chapter 4 that some insurers provided explicit discounts for being a new customer (Allianz, Westpac, CommInsure, and Youi). However, such discounts do not appear to be widespread in 2018–19, as insurers were not able to provide us with detailed data about the use of these discounts in the case study areas.

### 10.5 Impact of premium adjustments on consumers and price signals

The analysis in this chapter indicates that premium adjustments are exacerbating affordability issues for consumers in northern Australia, and in particular for those living in high risk areas.

While there are adjustments which can benefit consumers such as the use of capping and some types of price optimisation, it appears that generally adjustments are less beneficial to consumers in northern Australia. Premium adjustments for optimisation may disadvantage consumers in northern Australia who are considered higher risk and less profitable on average than customers in other parts of the country. Further, as premium caps are set higher in northern Australia than the rest of Australia, the percentage increases in premiums are often higher for renewing customers in northern Australia.

Further, renewing customers in northern Australia face a large ‘loyalty tax’. As observed in section 10.4, consumers renewing combined home and contents policies pay on average 7% more in north Western Australia, 24% more in the Northern Territory and 17% more in north Queensland than new customers in the same locations. Although across the three regions this is less than the 19% difference observed in the rest of Australia, the higher premiums consumers in northern Australia face mean that the dollar amount of the difference between new and continuing customer premiums is generally greater for consumers in northern Australia.

### Impact on risk signals

As noted above, insurance premiums can play an important role in acting as risk signals. However, for premiums to serve as effective risk signals they should reflect the underlying risks of the property insured, and not the commercial decisions of an insurer. Adjustments made in response to competitor pricing, risk concentration or exposure do not usually reflect the risk of insuring the individual property, but are made for a variety of other reasons. In particular, adjustments for risk concentration reflect the risk to an insurer of having a concentration of policies in a particular area. However, such concentration risk does not change the risk that the policy in isolation poses to the insurer.

We also note that premium adjustments for such concentration or market reasons are often not based on a reassessment of the underlying risk of the property/area. Instead these adjustments are often a fixed percentage increase applied across wide areas or to particular risk types. It is not always practical
for insurers to undertake detailed modelling when they consider premiums may need to be adjusted. However, these types of premium adjustments make it likely that the retail premium is further from the underlying technical premium, such that the retail premium is less reflective of the risks faced by the individual property.

Further, in market segments where insurers are not seeking to increase their market share (for example, for properties with a very high flood risk) premium adjustments can be made to avoid being the cheapest in the market. As a result, market adjustments can lead to retail premiums significantly above the technical risk reflective level.

Together these factors mean that insurance premiums in northern Australia are likely above the technical premiums for many properties, particularly those in higher risk areas. This has the potential to distort the ability of insurance premiums to act as risk signals, as they will overstate the true risk of these areas.

**Stronger competition can help address the impacts of some premium adjustments**

As noted above, insurers are entitled to set their own premiums, including through premium adjustments. However, several types of premium adjustments appear to have a significant price impact on customers in higher risk areas such as northern Australia. Improved competition in northern Australian insurance markets has the potential to lower the effect of premium adjustments on consumers in northern Australia. The more vigorous competition is, the less likely insurers will use some types of premium adjustments such as those for price optimisation. As well as potentially improving the affordability of insurance for many consumers, this will also improve the accuracy of premiums as a risk signal to property owners to the extent that they bring retail premiums closer to true technical premiums.

A number of recommendations we have made would help to improve competition in northern Australia including:

- recommendation 17.1: Standardise definitions of prescribed events
- recommendation 17.2: Review and mandate standard cover
- recommendation 18.7: National home insurance comparison website.

These recommendations would increase consumers’ ability to compare and switch between insurance products. Insurers would face a greater competitive constraint on their ability to apply upwards premium adjustments, particularly in northern Australia. Increased competitive pressure will also limit the use of price optimisation to increase premiums in northern Australia, and to differentiate between new and renewing customers.

Measures to enhance competition and reduce barriers to entry have the potential to reduce the extent of concentration risk by changing the market structure. Market concentration decreases should decrease individual insurers’ concentration risks and have a flow on effect of decreasing insurers’ need for, or magnitude of, upwards premium adjustments to manage their level of exposure and concentration risk.
11. Barriers to expansion and re-entry

Key points

- The most significant barriers to expansion and re-entry into northern Australian insurance markets stem from the higher catastrophe risks in those markets.
- These barriers include an increased capital requirement and/or dependence on reinsurance to meet higher and more volatile claims costs, the need to obtain and augment the risk data necessary to price with confidence, the costs of establishing or expanding builder and repairer networks, and obtaining sufficient scale.
- The characteristics of northern Australia are likely to make addressing these barriers more costly than for entry into insurance markets in the rest of Australia more generally.
- While prudential capital requirements (and insurers’ desire to hold a sufficient additional capital buffer above this), are not specific to northern Australia, the costs of meeting those requirement will generally be higher for insurers expanding into higher risk areas such as northern Australia.
- Access to reinsurance was not identified as a significant barrier to expansion or re-entry. However, insurers are conscious of the incremental reinsurance premium impact of supplying insurance in higher risk areas.
- Obtaining regulatory approvals to operate as a general insurer can involve significant upfront costs, however there are no additional barriers imposed by this requirement that are specific to northern Australia. Licensed general insurers do not need to seek additional approval from APRA to expand into northern Australia.
- Various sources of data and modelling are available to facilitate the quantification of risk. However, incumbents will have the advantage of experience in the region which allows them to augment this data and better understand how to aggregate and use it to more accurately price risks.
- Establishing a builder and repair network can represent a significant barrier for new insurers, particularly in more sparsely populated and catastrophe exposed areas in northern Australia. Extending existing networks to cover northern Australia will be easier, but still entail significant costs.
- The low populations (and potential premium pools) in many parts of northern Australia also limits the attractiveness of these markets to potential entrants.
- Obtaining a sufficient scale to be able to operate sustainably will likely involve a significant upfront investment, especially given the brand proliferation and high retention rates observed in northern Australia.
- A new entrant, Sure Insurance, entered northern Queensland in July 2019, leveraging off an existing insurance licence held by its underwriter, Liberty Mutual.

11.1 Background

New entry or threat of new entry is likely to be a potentially potent source of competition. The timeliness, likelihood, and scale of entry are affected by the height of barriers to entry.

Not every firm would face the same set of barriers. For example, barriers to entry to the northern Australian home and contents market for insurers new to Australia would be different from those for an auto insurer supplying in northern Australia or those for an insurer supplying home and contents insurance elsewhere in Australia.

We undertook to identify and investigate these barriers as a focus for our inquiry in 2019.
Focus area 4

**Identify and investigate barriers to expansion (or re-entry)**

We will engage with Australian insurers not currently active in northern Australia to identify and investigate barriers to their expansion (or re-entry) into northern Australian markets.

We consider that for those insurers already operating elsewhere in Australia, barriers to expanding into northern Australia are significantly lower than the barriers for a new entrant to the Australian insurance market. However, some established insurers generally do not write new business in northern Australia.

We will continue to explore, in consultation with insurers, the regulatory and other barriers to expansion into northern Australia. We will also engage on this issue with insurers active in only some regions of northern Australia.

We consider potential barriers to expansion or re-entry below. We also consider the additional barriers that would be faced by a new entrant such as an insurance start-up, or an established foreign insurer seeking to begin operations in northern Australia, where relevant.

Our views have been informed by information sourced from compulsory information gathering notices issued to incumbent insurers, submissions to the inquiry, and through our engagement with insurers currently outside of northern Australia, reinsurers, and the Australian Prudential Regulation Authority (APRA). We also liaised with a new entrant (Sure Insurance) and potential new entrant (Picnic Labs Ltd) to understand their views and recent experiences.

Notable licensed insurers that have minimal exposure in northern Australia include RAC Insurance Pty Limited (RAC),[^252] in Western Australia and AIG Australia Limited (AIG), as well as newer entrants to the Australian market Hollard Insurance Company Pty Ltd (trading as Real) and Auto & General Insurance Company Limited (trading as Budget Direct).

The barriers set out in this chapter make entry into northern Australian markets more difficult, but not impossible. Sure Insurance entered the home and contents market specifically in northern Queensland in July 2019.[^253] It has done so with the backing of incumbent licensed insurer Liberty Mutual,[^254] which, given its presence globally and in Australia, may have the experience and resources necessary to overcome some of the barriers mentioned in this chapter.

**The role of profitability**

While not a barrier per se, we note that expectations about the profitability of new markets will affect an insurer’s incentive to enter those markets, and its willingness to incur the costs of overcoming the barriers noted in this chapter. This issue is considered below in box 11.1.

---

[^252]: The Royal Automobile Club of Western Australia is a motoring club and mutual organisation.
Box 11.1: Poor and volatile profitability affects the incentive to enter markets

It is expected that insurers will seek higher profit margins from higher risk properties because of uncertainty associated with catastrophe risk. To ensure a sustainable offering over the long-term, insurers need to generate higher profits in relatively benign catastrophe periods to offset losses in periods where catastrophes occur more frequently, or are more severe than expected. In contrast, lower risk properties would be expected to generate a stable and more predictable profit margin year on year.

Insurers attempt to smooth the volatility in earnings in catastrophe prone areas (and generally) through reinsurance. Nevertheless, catastrophic events can and do cause adverse financial impacts for insurers. This is evident in the volatility of financial performances year on year, which we report on in chapter 6.

Insurers typically prefer predictability in their financial results. This is particularly important for publicly-held insurance companies, where their ability to meet market expectations on profitability can have substantial consequences for the company’s share price.

Our analysis of profitability for the 12 years from 2007–08 to 2018–19 indicates that insurance in northern Australia has been less profitable than for the related insurance offerings in the rest of Australia. This is examined in further detail in chapter 6.

This period has been a difficult trading environment for insurers in northern Australia. Only one of the eight main insurers managed to be profitable in the region during this time. While all insurers have had at least some profitable years, some insurers have incurred significant losses.

11.2 The key barriers to expansion or re-entry

The potential barriers to expansion or re-entry can be grouped into broad categories:

- capital requirements
- reinsurance
- licensing
- pricing uncertainty
- building and repair networks
- obtaining sufficient scale.

These are discussed in turn in the sections below.

Much of northern Australia is exposed to high catastrophe risk, in particular, from cyclone and flood. Such catastrophe risks are by nature highly variable in their outcomes year to year, with unpredictability as to where, when or how often catastrophes will occur.

Catastrophe risk is a feature throughout Australia to various extents. For an insurer, writing risks in northern Australia generally means taking on an increase in catastrophe risk. In particular, the insurer will need to hold sufficient capital so it can meet policyholders’ claims in the event of one or more catastrophes occurring. Of course, prudential regulators such as APRA also seek to maintain insurer solvency.

Insurers (and prudential regulators) seek to ameliorate the effects of this volatility, and maintain their solvency, by:

- ensuring they hold sufficient capital
- transferring some portion of their risk to reinsurers.
However, both of these approaches involve costs for the insurer. These costs can present as a barrier to expanding into or entering catastrophe-prone markets such as those in northern Australia.

These two approaches are considered in turn in the following sections.

**Capital requirements**

Insurers considering expanding into higher risk areas in northern Australia will have to consider the impact on their prescribed capital requirements and their own surplus capital ‘buffer’ caused by the likely increased exposure. This would be the case for expansion into higher risk areas outside of northern Australia as well.

While a new entrant can seek to reduce this impact through careful risk selection, it cannot be eliminated because of the higher catastrophe risks experienced by most properties through northern Australia.

The key elements of the prudential capital environment applicable to general insurers are set out below:

- The capital requirements imposed by APRA set a floor for the amount of capital an insurer must hold. Above a basic threshold, which is typically $5 million, this prescribed capital is dependent on its level of risk. The intent of capital requirements is to make sure insurers are able to meet the cost of claims made by policyholders.

- APRA’s General Insurance prudential standards are considered to be a safeguard which is in place to minimise the likelihood of insurers holding insufficient capital. Without regulatory intervention insurers could operate with less capital, however, at a substantially greater risk of insolvency in times of catastrophe.

- APRA’s prudential standards are risk based. As a result insurance policies written in high risk locations may result in a higher prescribed capital amount. Components such as the premium liability insurance risk charge and the insurance concentration risk charge may be impacted the most.

- There are no specific regulatory capital consequences of selling insurance in northern Australia which are different to the rest of Australia, as each risk is assessed based on its own risk profile. Consequently if more capital is required to underwrite northern Australian policies it is because the underlying risk is more evident and therefore greater security is needed to protect policyholders.

- Prudential capital requirements set by APRA serve an important role in maintaining policyholder confidence that claims will be paid. Insurers also aim to maintain a target surplus of capital that is significantly more than is required by APRA. For the main insurers present in northern Australia, the average capital held is typically in the range of 150 to 200% of the prescribed capital requirement. Insurers aim to maintain a healthy capital buffer over the prescribed amount to ensure they do not trigger intervention from APRA.

One component of the prescribed capital requirement is the insurance concentration risk charge requirement. This element of the capital calculation broadly aims to ensure that insurers can withstand a large 1-in-200-year whole-of-portfolio event or even multiple catastrophe events of a smaller size within a year.

By setting a threshold which can in reality be exceeded, this means that APRA is not operating a zero-failure regime. It must be understood that if a more severe major event occurs, or the frequency of events (including smaller events) is greater than what is provided for, then the risk of insurer failure is evident. Ensuring an appropriate degree of policyholder protection and promoting resilience against

---

255 APRA Prudential Standards GPS 110–118.

256 The Insurance Concentration Risk Charge is the minimum amount of capital required to be held against insurance concentration risks. The Insurance Concentration Risk Charge relates to the risk of an adverse movement in the general insurer’s or Level 2 insurance group’s capital base due to a single large loss or series of losses. APRA Prudential Standard GPS 116.


failure does not mean protecting all policyholders in full and in all circumstances, nor does it mean preventing all instances of failure. Implementing a regime of zero-failure would impose substantial further costs on the industry and APRA needs to strike a balance.

The APRA requirements are at a similar level to that of Solvency II, the regulatory solvency regime operating in Europe. Solvency II calculates capital needs to ensure an insurer could still pay out to policyholders after the occurrence of a 1-in-200-year stress event.\(^\text{259}\)

As noted above, insurers typically hold a substantial buffer over the capital required by the prudential standards. As part of an insurer’s internal capital adequacy assessment process, it will set its desired level of capital and capital trigger levels where action needs to be taken to manage its position.\(^\text{260}\)

A surplus capital buffer is considered necessary by insurers to remain sufficiently above the prescribed capital requirement. The size of this buffer is typically based on a range of considerations by the insurer including: the risk appetite, the likelihood of volatility in profit, capital needs derived from business strategy and planning, stress events, dividend policy and whether the insurer has ready access to additional capital if required.\(^\text{261}\)

As noted at the beginning of this section, insurers considering expanding into higher risk areas in northern Australia may have to consider the impact on their prescribed capital requirements and their own surplus capital buffer caused by the likely increased volatility of financial performance.

APRA may take a number of significant measures if an insurers’ level of capital falls below the prescribed capital requirement. For example, actions open to APRA include issuing a re-capitalisation direction\(^\text{262}\), imposing restrictions over the operations dividends\(^\text{263}\), placing the insurer under statutory management or applying to place the insurer under judicial management.\(^\text{264}\) APRA may also issue a re-capitalisation direction if it considers an insurer may become unable to meet its obligations\(^\text{265}\), and issue directions on a wide range of matters if it considers an insurer is ‘likely to contravene’ the prudential standards (including prescribed capital requirements).\(^\text{266}\)

The potential regulatory consequences for an insurer breaching its prudential requirements (including capital requirements) could be substantial. In addition, the potential for APRA to issue directions to an insurer if it considers the insurer may fall below the prescribed capital requirement (or otherwise contravene a prudential requirement) acts as a powerful incentive to retain substantial buffers over its prescribed capital requirements.

All else being equal, a greater exposure to higher risk areas such as those throughout northern Australia may increase an insurers prescribed capital requirements and raise the insurer’s costs accordingly. The insurer’s need to hold a ‘buffer’ of additional capital will magnify this effect.

However, this effect is not specific to northern Australia. Some insurers that we consulted with that are currently operating outside of northern Australia did not identify prudential capital requirements as a significant barrier to possible expansion into this region. In addition, these insurers advised that in the early stages of expansion with a relatively smaller level of exposure in northern Australia compared with the rest of Australia, it would be unlikely to cause a material change in capital required under the prescribed capital calculations.

---


\(^{261}\) ibid.

\(^{262}\) Insurance Act 1973 (Cth), s. 103B.

\(^{263}\) Insurance Act 1973, s. 104.

\(^{264}\) Insurance Act 1973, Part VB, Divisions 1 and 1A.

\(^{265}\) Insurance Act 1973, s. 103B(1)(b).

\(^{266}\) Insurance Act 1973, s. 104.
Reinsurance

Reinsurance is particularly important in northern Australia, where claims costs are more variable and subject to major spikes resulting from catastrophe events. It assists insurers directly by smoothing their earnings over time and by reducing their prescribed capital amount, at a cost. As such, the availability and cost of reinsurance will impact an insurer’s ability to enter northern Australian insurance markets.

Insurers that are currently active in northern Australia generally cede substantial portions of catastrophe risk to reinsurance markets.

Existing insurers that are not currently active in northern Australia are likely to have their own reinsurance programs in place which could be adjusted if required to include risks in northern Australia.

Feedback from the variety of reinsurance stakeholders we have engaged with indicates that reinsurers had the capacity and the appetite to provide reinsurance to cover risk in northern Australia, including cyclone and flood risks, although one reinsurer added this was as long as the price appropriately reflects the risk.

Reinsurers indicated that providing reinsurance to northern Australia helps to diversify their exposure both within Australia, but also globally (one noted that reinsurers write global portfolios and manage their exposures in this context). Similarly, we did not find any indication that the availability of reinsurance was a barrier to expansion in, or new entry into, northern Australian insurance markets.

However, reinsurance premiums are influenced by the expected claims for the portfolio. Reinsurance available to insurers with a high degree of exposure in northern Australia would be priced according to reinsurers’ view of the insurer’s catastrophe exposure, among other considerations. Insurers with greater exposures in higher risk areas would be expected to face higher reinsurance costs, all else being equal.

Licensing

General insurers are required to be authorised under the Insurance Act 1973 (Cth) and once licensed by APRA, they are subject to prudential supervision. This licence is required before an insurer can supply the relevant products in Australia.

A submission to the inquiry from Picnic Insurance argued that the licensing process was too long and lacked a definite timeframe. Picnic stated that this is problematic because of the related capital ‘burn’, the difficulty in projecting funding requirements, and because innovative solutions may lose a first-mover advantage.

APRA guidance on the timeframe details that licensing could take from three to 12 months. This is dependent on the complexity of the proposed arrangements, and the extent to which the applicant can base its operations on an existing, well-established and sound business model.

APRA noted that while it cannot comment on the circumstances of individual applications, the licensing process involves significant back-and-forth with applicants and often there is some down-time waiting for responses. These processes have been adjusting since the inception of the centralised licensing team in July 2017.

APRA also noted there has been limited interest for insurance applications over the last few years, and since 2004, there have been only two home and motor new entrants (Youi and Auto & General).

---


268 This was evident in the high proportion of the premium ceded to reinsurers in 2018–19 at 39%, noted in the financial data received from insurers for the purpose of the inquiry and other details received regarding their reinsurance programs.

269 One caveat is the limited circumstances where unauthorised foreign insurers can access the Australian market. This is noted in chapter 2.


In addition over this period there has been a consolidation of the number general insurers authorised to conduct business in Australia, decreasing from 161 in 2001\textsuperscript{272} to 82 in 2020.\textsuperscript{273}

The UK Financial Conduct Authority is an example of a firmer commitment to the timeframe for decisions on applications. In the UK, if the application is considered complete it needs to be assessed within six months, and if the application is incomplete, it must make a decision within 12 months.\textsuperscript{274}

The ACCC acknowledges that the definition of a “complete application” may be open to interpretation and is not formally recommending a change to current practices. However we do endorse any action taken by APRA if it deems appropriate to reduce licensing timeframes for finalising applications.

We also note that the licensing process is the same whether or not an insurer intends to operate in northern Australia. Licensed general insurers do not need to seek additional approval from APRA to expand into northern Australia.\textsuperscript{275} For example, Sure Insurance began operations solely in northern Australia in July 2019, and is underwritten by Liberty Mutual.\textsuperscript{276} As a licensed general insurer in Australia, Liberty Mutual did not require approval from APRA to expand into the northern Australian market through Sure Insurance.

**Pricing uncertainty**

One of the main difficulties for insurers not already active in northern Australia is the expected volatility and high risk profile present in this region. It can be challenging for insurers to model catastrophe risk and predict with certainty what the future claims experience will be, particularly over the short-term.

As insurers have moved to more granular (address level) pricing, the complexity of this challenge has increased significantly. Accordingly it can be difficult to price policies with confidence.

Without a clear understanding of the underlying risk, some insurers take the approach of minimising or avoiding high risk exposures altogether, while others may cautiously enter new markets until confidence grows in their ability to price appropriately.

Insurers attempt to compete based on the price of their offering in conjunction with the level of cover and features of their products. Their ability to offer insurance on an ongoing basis largely depends on accurately assessing the underlying risk and pricing the premium accordingly.

Pricing uncertainty and accepting high risk exposures is problematic where insurers desire more confidence over financial performance and have a lower appetite for risk. Some insurers have stated that high risk property throughout the whole of Australia (and not just in northern Australia) can be unattractive for this reason. Insurers have also placed embargoes on high risk postcodes and locations for this reason (these are discussed further in chapter 7).

Some insurers also advised that selling policies with extremely high premiums comes with a perceived risk of reputation or brand damage even if they believe the premium is a reasonable reflection of the risk. Where the pricing consequence of a risk assessment is too high some insurers may then choose to not supply insurance in these areas rather than expose their brand to reputational damage.


\textsuperscript{273} APRA register of general insurers: https://www.apra.gov.au/register-of-general-insurance, viewed 28 October 2020. Note that this number includes all general insurers and reinsurers, not only those writing home, contents and/or strata insurance. We note that this movement is due in part to acquisitions and consolidations of insurance licenses. For example, CGU Insurance is now owned by Insurance Australia Limited, Elders Insurance is now owned by QBE, and Australian Associated Motor Insurers Limited is owned by Suncorp. Most of these exits were a result of existing insurance groups adjusting their corporate structures and the insurance liabilities were transferred to a parent or related insurer. In some cases, the brand name of the revoked insurer may continue to exist in relation to its business as an insurance agent, broker or underwriting agent for other general insurers.


\textsuperscript{275} APRA insurance licences are national and are not restrictive to specific regions.

The ability of insurers to confidently price risk is largely dependent on their access to data and their ability to utilise this data. This is considered further below.

**Data access and use**

In assessing the risk associated with property exposure, insurers collect large amounts of data. The data varies in its importance and use depending on the insurer’s view of how accurately it represents the underlying risk. This may include but not be limited to data on:

- hazards and climate
- property characteristics
- geological characteristics
- claims history
- other personal data.

The sources of the data are both public and private, and often it is the aggregation and analysis of the information which is most valuable to the insurer.\footnote{277}

New entrants may be at a competitive disadvantage (at least initially) against established insurers who have a localised history of claims and hazard data combined with the experience of how to price the risk in this location. Indeed the experience gained over time by supplying insurance in northern Australia could facilitate a better understanding of what information is most important when assessing risks.

Some insurers with a limited or no presence in northern Australia indicated that it was the difficulty in understanding the risk and pricing it appropriately that was the biggest challenge to them entering northern Australia.

The costs of obtaining or developing the data required to accurately price risk in the relevant areas is a barrier. While industry vendor models are more likely to be used in modelling catastrophe perils, some insurers that are established in the region have developed their own risk models using a mixture of information from external sources and their own data and modelling. Information obtained from insurers indicates they often use various sources of data and modelling techniques to derive a best estimate of the future claims experience.

In chapter 4 we noted that insurers will also often use combinations of models for different perils, or make adjustments to the external models where they consider this is necessary. For example, one insurer adjusted the outputs of an external model used to estimate cyclone claims as a consequence of its testing of the model. The insurer considered that the model did not recognise the impact that the increased demand for building and repair work would have on the cost of services (demand surge), and that it did not fully recognise costs associated with the settlement of a claim (i.e. loss adjuster costs). At least two insurers have adjusted their flood models so that they better take building height or number of storeys into account.

For an insurer to enter a new region there is considerable cost in obtaining data, modelling and assessing this information and fine-tuning pricing as a consequence. The greater the degree of uncertainty in the claims outcomes because of catastrophe risk, the more resources the insurer is likely to expend understanding this risk.

Over time investments in data acquisition and analysis by insurers active in northern Australia may lead to a competitive advantage facilitated by improved understanding of their risks and related confidence in pricing. New entrants into a high hazard environment may need to enter the market cautiously as they develop their pricing and underwriting modelling, and/or make substantial upfront investments in data and modelling.

\footnote{277} The approach to calculating expected claim costs was explained in more detail in chapter 4.
Sources of hazard data

Accurate and complete natural hazard data is essential for insurers to model their exposure to catastrophe risk. The Natural Disaster Funding Inquiry report prepared by the Productivity Commission released in 2015 concluded that natural hazard information is a key input to risk understanding and risk treatment by all parts of the community.278

In its submission to the Productivity Commission inquiry the Insurance Council of Australia (ICA) noted:

> Insurers are heavy users of public sector data on natural hazard risks, but they also obtain their own proprietary data in assessing and pricing household risk. Insurers require highly detailed and sophisticated, or high-resolution, hazard data to underwrite and price risk. Examples of high resolution data are digital terrain data and gridded flood surface models for water depth, height and velocity. Insurers typically overlay the public sector data with their own data to generate detailed insights into individual consumer risks; and in this process of further developing the data, the data becomes a commercial asset. The data held by individual insurers will be different, and investments in data acquisition and analysis are used by insurers as a competitive advantage.279

Hazard data down to the address level is available from a variety of sources. The ICA for example has collected and centralised publicly available government hazard data for flood, fire, cyclone and earthquake hazards. This is presented in its tool known as ‘DataGlobe’. According to the ICA website the data can be searched by anyone, but only downloaded if an ICA member has appropriate licences.280 This provides a mechanism for insurers that are ICA members to access the raw hazard data collected by the ICA. Hazard-related data produced by governments and agencies remains the most relevant source of hazard data for the insurance industry.281

Other sources of hazard data include government agencies such as Geoscience Australia, the Bureau of Meteorology, CSIRO, and local and state governments. Apart from insurers collecting and modelling their own hazard data, this may also be sourced by other external providers such as Finity and Risk Frontiers, or from reinsurance brokers. Risk Frontiers and Finity have developed databases of national hazard profiles by street address to help inform insurers of Australian risks.282

The Productivity Commission noted that the availability of information on natural hazards and exposure has improved significantly in recent years, especially in relation to floods. However, there is scope for greater coordination and prioritisation of natural hazard research activities across governments and research institutions.283

The Productivity Commission made a number of recommendations surrounding data sharing, collaboration between insurers and governments in data gathering.284

In response to the recommendations the Australian Government noted that it is committed to optimising the use and reuse of public data, to release non-sensitive data by default, and to collaborate with the private and research sectors to extend the value of public data.

---


280 The ICA states that all applications are assessed on a case-by-case basis and access will be granted subject to the nature of the intended use, the status of the ICA membership and the status of relevant licences required to be held to gain access to different datasets currently available. See: [https://www.icadataglobe.com/dataglobeposts/accessicadata](https://www.icadataglobe.com/dataglobeposts/accessicadata), viewed 28 October 2020.


284 Ibid. See, in particular, the Productivity Commission’s recommendations 4.1 to 4.4.
A range of public data, including disaster resilience and natural hazard data, has already been published by the government on the [www.data.gov.au](http://www.data.gov.au) website. The government response indicated it was working with industry and investing in detailed research on risk reduction to develop the evidence to inform decision making—from a national level through to individual households. The government also noted that it has previously provided funding to states and territories to support risk assessments.  

We examine the potential for greater collaboration between insurers and land use planners regarding natural hazard risks in chapter 14.

**Building and repair networks**

Insurers considering expansion into northern Australia (or any other geographic area) need to be confident in their ability to service customers, especially in times of peak demand. While an insurer may be able to rely on local trades with a small number of risks, an expansion in customer numbers may make such an approach less viable, particularly in the event of a catastrophe. An example of this might be selling thousands of policies in one city without yet establishing the network of service providers to handle the claims if disaster strikes. This can be overcome with the establishment of a repair network, leveraging off local trades capacity or expanding gradually as the support network grows accordingly.

Insurers commonly have a designated panel of builders and repairers that will manage the repair process on their behalf. While an insurer established in other parts of Australia would already have such networks in place, there may still be a considerable cost in extending these to northern Australia, particularly in the more remote regions.

The nature of catastrophe risks in northern Australia also means insurers’ building and repair networks must be capable of dealing adequately with the demand surge that can occur in the aftermath of a cyclone, flood or other catastrophe. This is a feature of operating in northern Australian markets, but is not unique to northern Australia.

Some insurers choose to outsource claims handling to third party providers, however this also comes with additional cost/benefit considerations; such as the overall administration of the arrangement, reliance on the quality of the service provided, and introducing measures to review claims outcomes.

**Obtaining sufficient scale**

Obtaining sufficient scale to recover the costs of entry into a market can be a barrier to entry.

From the stakeholder discussions we were advised that an insurer entering northern Australia for the first time would need to reach a substantial scale of operation to make the venture financially viable. It has been suggested that insurers with larger scale are able to put additional resources into modelling and pricing sophistication, are able to further develop the necessary networks for claims assessing and repair, and have greater budget for marketing and consumer engagement. However, the materiality of these benefits is not clear.

One of the factors new entrants may consider is the size of the potential premium pool. Because of population density and geographical spread, sub-regions of northern Australia can have relatively small premium pools. This impacts the size of the potential premium pool and may influence the attraction of the location for new insurers to enter. The potential premium pool will need to be sufficient to not only fund the expected cost of selling and servicing the policy, but also to recover the upfront cost of entering the region.

---

To be viable, insurers will have to attract new business through advertising and other marketing efforts. As noted in chapter 2, existing insurers often have multiple brands through which they supply insurance. A new entrant will likely incur significant marketing costs to build its brand in this environment. Where long-standing brands dominate a regional market, as with formerly government owned brands in northern Australia, this may present extra challenges.

In chapter 7 we discussed how there is customer inertia and reliance on known or familiar brands. High retention rates of the kind seen in northern Australia make it more difficult for new entrants to attract customers and obtain sufficient scale.

Measures that reduce consumers’ searching and switching costs can reduce these barriers. We note many of our recommendations, especially those set out in chapter 18, are designed to facilitate consumer searching and switching.
12. Understanding non-insurance

Key points

- High rates of private insurance are socially beneficial, not only in terms of the efficiencies of risk pooling, but also in reducing the reliance on governments and charities to support the personal hardship that arises when uninsured property is damaged or lost in disaster situations.

- We undertook to better understand the extent of, and reasons for, non-insurance in northern Australia. Combining policy information we collected from insurers, with ABS Census data, we estimated the number of home buildings without insurance at a postcode level. We complemented this analysis with consumer surveys, providing important qualitative insights into the reasons for non-insurance.

- We found that rates of non-insurance for homes appears to be significant and growing in some parts of northern Australia. Using 2016 Census data, we estimated the rate of home non-insurance in northern Australia to be around 20%. This means around 86,000 properties were without home building insurance in 2016. This is generally higher than our estimate of the rate of non-insurance for the rest of Australia, which was around 11%.

- At a regional level, north Western Australia's estimated rate of non-insurance was the highest at 40% (around 10,700 properties), followed by the Northern Territory at 26% (around 13,200 properties) and north Queensland at 17% (around 62,100 properties).

- We also found the level of home non-insurance varied significantly between postcodes within regions, with ‘average’ figures disguising pockets of deeper non-insurance.

- Over 95% of respondents to our survey of northern Australian residents without home insurance attributed this to cost (52% said they couldn’t afford it and 45% couldn’t justify the cost). Cost was also the main reason for not getting contents insurance, however 19% of residents said their contents were not worth insuring and 12% did not believe they were at risk.

- Among residents of northern Australia with home and/or contents insurance, 55% of respondents to our survey reported having flood cover and 12% were unsure. Of the insured residents who did not have flood cover, 71% said that they chose not to have it because they believed they were not at risk of flood.

- The survey considered the experiences of two samples of Indigenous residents in northern Australia, finding a lower incidence of home and contents insurance in both samples. The rate of contents insurance was markedly lower among renters than home owners.

- Of the 38% of residents of northern Australia who said they had experienced an insurable event in the last five years, 91% had some type of insurance at the time, however only 75% made a claim. Almost half (46%) of those who did not make a claim said it was because their excess was too high but 13% said they did not have the right kind of insurance or the cause of the damage was not covered by their insurance.

- Higher premiums have added to the cost of living for residents of northern Australia and have prompted many consumers to reduce their level of insurance cover through higher excesses or lower sums insured. About half of surveyed residents in northern Australia reported feeling some, a lot of, or extreme pressure when paying their most recent premium.

- In Chapter 15, we consider what more insurers could do to support customers experiencing premium payment difficulties. We also explore the reasons why insurers often charge more to pay in instalments and whether payments options such as fortnightly payments and access to Centrepay would improve the accessibility of insurance to low income consumers.
12.1 Our approach

During our inquiry, we undertook to better understand the extent of, and reasons for, non-insurance. Chapter 12 presents the findings of our work on understanding non-insurance. We build on our findings in chapter 15 where we consider what more insurers could do to support customers experiencing payment difficulties.

Focus area 5

Understanding non-insurance and how it may be addressed

We will explore the extent and reasons for non-insurance throughout northern Australia, including in Indigenous communities. As part of this focus area, we will consider current and potential measures to improve the accessibility of insurance to low-income households. We will look at the extent to which insurers make Centrepay available to eligible customers and why hardship policies are generally limited to the payment of an excess and not a premium.

This will help us provide a more complete assessment of the accessibility and performance of insurance markets in northern Australia and help guide any other policy responses. Insurance is a ‘near essential’ product. There are currently very limited obligations on insurers to improve its accessibility to all members of the community and evidence of innovation is lagging other industries. Industry hardship programs are less sophisticated and more limited in accessibility than other industries.

Throughout this chapter, we have used ‘home building insurance’ to refer to insurance for a residential building, whether it is provided through a home insurance product or a (combined) home and contents insurance product. Similarly, references to average premiums and premiums per $1,000 sum insured refer to premiums for home insurance products as well as the building component of combined home and contents insurance products, unless otherwise stated.

Why does non-insurance matter?

It is widely accepted that insurance is vital for protecting assets and improving resilience. Non-insurance leaves people unprotected and vulnerable, should they experience a loss. This is especially true for people on low incomes, as they are least able to absorb losses or readily replace or fix damaged property.

High rates of private insurance are socially beneficial, not only in terms of the efficiencies of risk pooling, but also in reducing the reliance on governments and charities to support the personal hardship that arises when uninsured property is damaged or lost in disaster situations.

In the past 10 years, a number of studies and surveys have estimated levels of, and reasons for non-insurance in Australia. While such research offers useful insight, a range of factors limit the usefulness of their findings to our inquiry. Limitations include a different geographic focus, a different scope of insurance products, and aging data. We are not aware of any other current study exploring the rates of under or non-insurance in northern Australia specifically.

The key objectives of focus area 5

The key objectives of focus area 5 were to better understand:

- the extent of, and reasons for, non-insurance in northern Australia
- insurers’ initiatives to improve the accessibility of home and contents insurance to lower-income households.

Understanding the extent of, and reasons for, non-insurance

We used two distinct approaches to estimate non-insurance levels across northern Australia and compare it with the rest of Australia.
Our first approach, the Census approach, overlays policy data that we collected from insurers with data from the ABS Census to estimate, at a postcode level, the rate of home building non-insurance throughout northern Australia and how this has changed over time. We set out the methodology and findings from this approach in section 12.2 of this chapter. While no approach is without limitations, we consider this to be a very comprehensive estimation, which is unique to our inquiry.

Our second approach involved commissioned surveys of residents of northern Australia (including a spotlight on Indigenous consumers) and residents of the rest of Australia to estimate the rate of home building and contents insurance. An overview of the surveys that made up this research appear in box 12.1. The surveys allowed us to explore, in a qualitative way, a range of additional issues that support our understanding of insurance, and the reasons why some people may decide not to have it. For example we asked consumers to rate the financial pressure they felt from paying their most recent renewal or new premium, whether they took any action in response to that. We complemented the findings of the surveys with information we collected from insurers. Some of this information we have collected compulsorily, and some was provided voluntarily.

The findings of the surveys are discussed throughout this chapter, with the findings relating to extent of non-insurance specifically at section 12.3.

A spotlight on Townsville

Following the flood event affecting Townsville and north Queensland in February 2019, the government requested we assess the extent of non-insurance in the flood-affected areas of Townsville, including households that have insurance but not flood cover. The government also requested that, in parallel to our inquiry, we examine the extent of non-insurance for small businesses in Townsville and the reasons for this. Our commissioned research includes ‘spotlights’ on both residents and small businesses in the Townsville area to help respond to this request.286 The findings of these components of the research are discussed in chapter 9 and appendix D respectively.

The scope of focus area 5

There are several useful points to make about the scope of this focus area.

We did not consider strata insurance in our analysis of non-insurance. Unlike home and contents insurance, strata insurance is required by law in each state and territory. While we have heard instances of strata buildings being without insurance cover, this is a relatively rare occurrence and may only be temporary. The challenges facing strata insurance markets are considered in chapter 16.

Our consumer research allows inferences to be made about the potential for underinsurance, however it is not possible to estimate underinsurance across a general region with confidence so we do not draw conclusions about it.

Underinsurance typically does not reveal itself until a consumer who has some insurance experiences a loss, and then discovers that their loss is not covered fully by their policy. There could be a number of explanations, such as an inadequate sum insured, damage because of a risk the consumer was not insured against, and/or policy limits or exclusions on particular items. Data about denied or part claims is helpful here, but if the consumer determines for themselves their loss is not covered and does not even attempt to claim, then that experience of underinsurance would never be recorded. We tested some of these scenarios in our survey by asking consumers about their experience of claiming for a recent insurable event. We also looked at the methods respondents used to estimate their sum insured and how regularly they reviewed it.

To measure underinsurance in the absence of a disaster would require making an assessment of the level of insurance cover that is appropriate for each individual property and/or its contents and comparing this with the actual sum insured a consumer has nominated. It would also require subjective judgments to be made about what constitutes an appropriate level and type of cover. It would be an extremely costly undertaking to assess enough individual properties to estimate underinsurance.

286 The letter from the then Assistant Treasurer setting out this request is published on our website at: [www.accc.gov.au](http://www.accc.gov.au).
Box 12.1: The surveys that comprised our market research

We engaged Susan Bell Research to undertake a collection of surveys to inform our analysis of the extent of, and reasons for, home and contents non-insurance in northern Australia. The surveys were conducted in June 2019.

Main survey of northern Australia (1,600 residents)

The research centred on a large survey of 1,600 residents of northern Australia. Quotas were applied by age and gender and state and territory to ensure a representative distribution. This was a mobile phone survey which took up to 15 minutes to complete.

Four per cent of respondents to the main survey indicated they identified as Aboriginal or Torres Strait Islander.

Survey of the rest of Australia (500 residents)

We included a survey of 500 residents from the rest of Australia so we could better understand how the insurance experiences of residents of northern Australia compared with the rest of Australia. This was an online survey that took around five minutes to complete.

A specialist survey of Indigenous residents using the SurveyMob panel (100 residents)

Around 4% of the main survey identified as Indigenous Australians. While still valuable, the relatively small sample size meant that we could not rely on the main survey to reliably represent the insurance experiences of Indigenous residents generally. The research therefore included a specialist survey of Indigenous residents using the SurveyMob panel.

SurveyMob is a large national sample of Indigenous residents who have opted in to participate in research. This panel includes Indigenous residents in the larger towns and cities of north Queensland and the Northern Territory (with far fewer in north Western Australia). It has a higher representation of people who live in homes provided by governments, Land Councils or similar organisations. While the SurveyMob sample is similarly not representative of all Indigenous residents of northern Australia, it increased our capacity to understand insurance coverage among Indigenous consumers.

The additional survey of residents of the Townsville area (75 residents)

To allow a more detailed analysis of Townsville following the February 2019 flood event, we surveyed an additional 75 people who lived within 100 kilometres of Townsville. The survey was the same as the main survey, except for some specific questions about flood cover which were subsequently added to the main survey (after it had begun). The research combined the results of the Townsville residents survey with data from Townsville residents captured in the main survey, which gave a total sample of 335 residents, 190 of whom who responded to questions about the flood. The findings from this survey are set out in chapter 9.

The small business survey (76 small businesses)

This survey was specifically designed to focus on the February 2019 Townsville floods. The research defined small businesses as businesses with fewer than 20 employees. Manufacturers with up to 100 employees were also considered ‘small businesses’. The types of small business insurance that the research focused on were building, contents (including stock and equipment), and business interruption. The findings from this survey are discussed in appendix D.

---

287 We use the term ‘Indigenous residents’ to describe respondents to the survey who self-identified as Aboriginal or Torres Strait Islander.
12.2 Estimating home building non-insurance: the Census approach

This section discusses the trends in home building non-insurance throughout northern Australia, then looks at the trends between states and territories, including a comparison with the rest of Australia. We also used the Australian Bureau of Statistics Index of Economic Resources to consider the extent of the relationship between non-insurance and socio-economic factors.

Approach

We have estimated the rate of home building non-insurance by comparing the number of insurable properties (which we estimated from Census data) with the number of home insurance policies and combined home and contents insurance policies written by the eight main insurers in northern Australia (which we obtained from insurers). The difference between the two numbers is the estimated number of un-insured properties, and we have presented this by postcode across northern Australia.

The Census, undertaken every five years, collects key demographic data on every person in Australia. The Census was most recently undertaken in August 2011 and August 2016, and we compared this to the number of policies written by the insurers for each of 2011-12 and 2016-17 (the two closest financial years to the Census). This allowed us to make observations about the change over five years. We explain our method in more detail below.

The data we collected from insurers

The insurer data used includes the total number of home building insurance products the eight main insurers collectively sold (i.e. the number of risks written) in each postcode in northern Australia and the rest of Australia in the 2011-12 and 2016-17 financial years.

The insurer data we have provides a very good representation of the total northern Australia market. APRA provided us with information about the market share of insurers underwriting householders insurance nationally in 2018-19. The gross written premium of the eight insurers nationally is around 87%.

Given we know other insurers write relatively little or no business in northern Australia, we are confident that these eight insurers supply the vast majority of the home, contents, and strata insurance markets in northern Australia, and their collective share of the gross written premium in this region will be significantly higher than the national figure.

To estimate the extent of non-insurance in the rest of Australia in 2016, we used insurer data from the 2017-18 financial year as this was the closest year for which we had data for areas outside northern Australia. We have assumed that the number of risks written in the rest of Australia differs only marginally from the 2016-17 level.

We have not been able to estimate a rate of non-insurance for the Northern Territory for 2011 and we are also unable to estimate insurance rates across all of northern Australia for 2011. The Territory Insurance Office (TIO), owned by the Northern Territory Government, was the main supplier of insurance in the Northern Territory until it was acquired by Allianz in 2015. We have been able to obtain only very limited data about the TIO’s business prior to this acquisition, making any estimation or comparison between years unreliable.

To complete the estimation of the extent of non-insurance in the rest of Australia, we obtained additional data from several insurers active outside of northern Australia. These insurers voluntarily provided us with information about the number of home insurance and (combined) home and contents policies they underwrote in the rest of Australia in 2017-18. The data we received complements the data provided by the eight insurers operating in northern Australia, and together provides a more complete representation of the rates of non-insurance throughout Australia.

---

288 Householders insurance includes home, contents and strata insurance underwritten by insurers which are regulated by the Australian Prudential Regulation Authority.
The Census data we used

We used the selected dwelling and household characteristics catalogue to estimate the total number of insurable residential homes in northern Australia. The catalogue that we used records by location, all surveyed information on:

- income (e.g. total family and household (weekly) income)
- tenure type of the dwelling (e.g. privately owned, under mortgage, or rented)
- landlord type of the dwelling (e.g. provided by state or territory housing authority)
- dwelling structure (e.g. separate house, flat or apartment, improvised homes)
- type of non-private dwelling (e.g. hotel, motel or hospital).

To focus our analysis on just those residential buildings within the scope of our inquiry, we excluded property types that are required to hold insurance under state or territory legislation (i.e. strata titles) and other special housing categories, such as social housing, housing supplied by land councils and housing managed commercially (such as mining company housing). We also removed other dwellings such as caravans and houseboats that ordinarily are not within scope of the inquiry. The remaining dwellings form the pool of total insurable residential properties by postcode that we have compared with insurers’ policy data.

Limitations of our method

While we are confident in this method, it is not perfect. Census data has limitations around the extent of private information it can disclose for smaller communities, and errors from respondents and in manual coding are possible. There are postcodes where the Census data and insurers’ data are not consistent and we cannot estimate a rate of non-insurance confidently. In some postcodes this is because Census data suggests there are no dwellings within our scope (but our insurers’ data suggests there are) and conversely some postcodes that have no written risks but the Census data suggests there are dwellings within scope. Where this issue occurs, we have represented these areas as ‘insufficient data’.

We have not used this methodology to estimate the rate of insurance for contents because our postcode-level data may contain instances where more than one contents policy has been written to the same property. For example, consumers can insure their most important goods (such as white goods or specific jewellery) with multiple insurance companies, therefore introducing a margin of error when quantifying the rate of insurance.

Non-insurance rates across northern Australia: overall

Our findings suggest the estimated rate of home building non-insurance in northern Australia is around 20% and substantially higher than in the rest of Australia (around 11%). This suggests that as of 2016, a total of around 86,000 properties were without home building insurance in northern Australia.

Figure 12.1 shows the rates of non-insurance as a proportion of the total number of insurable properties for northern Australia, and in each region within northern Australia in 2016.

---

289 Australian Bureau of Statistics 2016, Selected Dwelling Characteristics (July 2017), TableBuilder. Findings based on use of ABS TableBuilder data.
In particular, figure 12.1 shows:

- North Western Australia’s rate of non-insurance in 2016, as a proportion of the total number of properties in that region, was the highest at 40% (or around 10,740 uninsured properties). An increase of nine percentage points in the rate of non-insurance in the five years from 2011 to 2016 suggests an extra 4,175 properties did not have home building insurance by 2016.

- The Northern Territory’s rate of non-insurance was around 26% (or around 13,165 uninsured properties) in 2016. While we did not have sufficient data to estimate non-insurance in 2011, the general trend across northern Australia shows increasing rates of non-insurance between Census years. The Northern Territory is likely to have followed a similar trend.

- North Queensland’s rate of non-insurance was around 17% in 2016, however it was the largest contributor towards the total number of uninsured properties in northern Australia in absolute terms (representing around 75% of the total or around 62,125 uninsured properties). An increase of seven percentage points in the rate of non-insurance in the five years from 2011 to 2016 suggests an extra 29,825 properties did not have home building insurance by 2016.

These regional averages disguise deeper concerns of home non-insurance issues, which we look at in more detail in the next section.

Rates of home building non-insurance by states and territory

In this section we observe the changes in the rates of non-insurance at a more granular postcode level by state and territory, and consider possible reasons for a change.

Figure 12.2 shows the non-insurance rates by postcode throughout Australia in 2016. The data suggests the states and territories on the eastern seaboard tended to have lower rates of non-insurance than central and western states and territories. Non-insurance rates are higher in northern Australia and are represented by the darker shades of orange tending to purple in figure 12.2. Note that larger inland postcode areas (tending to purple) often have very low populations.
We wanted to understand the extent of the relationship between non-insurance and local socio-economic conditions. To do this, we have looked at the ABS’s ‘socio-economic index for areas’ (SEIFA) dataset and more specifically, the Index of Economic Resources (IER). The IER focuses on the financial aspects of relative socio-economic advantage and disadvantage by summarising variables related to income and wealth. It excludes education and occupation variables because they are not direct measures of economic resources.

The index of economic resources gives all Australian postcodes a score based on the general ability for households in those postcodes to access economic resources.

1. A low score indicates a relative lack of access to economic resources in general.
2. A high score indicates relatively greater access to economic resources in general.

The scores were then ranked from lowest to highest, with the lowest 10% of postcodes given a score of 1 and so on, up to the highest 10% of areas which are given a score of 10. We converted the rankings from deciles to quintiles to simplify the analysis.

Figure 12.3 shows the IER for all postcodes within Australia. We can observe similarities between the two maps; for example, most of the postcodes showing higher rates of non-insurance have lower scores according to the IER. In general, the majority of northern Australia households are less likely to have access to economic resources when compared with the southern part of the country. We note, the score provided at the postcode level presents the overall average for the postcode area, and there may be significant variation within a postcode.
As can be seen in table 12.1, the vast majority of postcodes in northern Australia (around 85%) are ranked between one and three. In the rest of Australia this figure decreases to around 58% of the postcodes. This indicates that there is a relative lack of access to economic resources, in general, in these areas. When coupled with high insurance premiums, this may indicate problems with insurance affordability.

Table 12.1: Northern Australia and the rest of Australia: Proportion of postcodes ranked by the Index of Economic Resources (IER) number and average rate of home building non-insurance 2016

<table>
<thead>
<tr>
<th>IER rank</th>
<th>Northern Australia</th>
<th>Rest of Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Proportion of postcodes</td>
<td>Average rate of non-insurance</td>
</tr>
<tr>
<td>5</td>
<td>5%</td>
<td>13%</td>
</tr>
<tr>
<td>4</td>
<td>10%</td>
<td>17%</td>
</tr>
<tr>
<td>3</td>
<td>21%</td>
<td>17%</td>
</tr>
<tr>
<td>2</td>
<td>24%</td>
<td>18%</td>
</tr>
<tr>
<td>1</td>
<td>40%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers and 2016 ABS Census data.

Table 12.2 provides a further breakdown of the regions in northern Australia. We can observe that the average rate of non-insurance tends to increase as the IER rank decreases.

---

291 The average rate of non-insurance for the rest of Australia by IER rank was approximated based on average non-insurance rates for the postcodes outside of the metropolitan areas (i.e. capital city regions) as the insurer data obtained for the metropolitan regions was provided in an aggregated manner. We note that, when ranked by the IER, the proportion of postcodes in metropolitan areas is similar to the proportion of postcodes outside of metropolitan areas.
Table 12.2: Postcodes of regions within northern Australia: Postcodes ranked by the Index of Economic Resources (IER) number and average rate of home building non-insurance 2016

<table>
<thead>
<tr>
<th>IER rank</th>
<th>No. of postcodes</th>
<th>Average rate of non-insurance</th>
<th>No. of postcodes</th>
<th>Average rate of non-insurance</th>
<th>No. of postcodes</th>
<th>Average rate of non-insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>2</td>
<td>33%</td>
<td>5</td>
<td>8%</td>
<td>2</td>
<td>7%</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>35%</td>
<td>2</td>
<td>32%</td>
<td>14</td>
<td>14%</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>37%</td>
<td>7</td>
<td>22%</td>
<td>27</td>
<td>14%</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>52%</td>
<td>1</td>
<td>22%</td>
<td>40</td>
<td>16%</td>
</tr>
<tr>
<td>1</td>
<td>15</td>
<td>40%</td>
<td>17</td>
<td>49%</td>
<td>41</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers and 2016 ABS Census data.

Table 12.2 shows higher rates of non-insurance throughout northern Australia (in particular north Western Australia, the Northern Territory and those lower IER ranked postcodes) than in the rest of Australia (see table 12.1). We have observed the rates of non-insurance progressively increasing between Census years and this is likely to have some correlation with increases in the average insurance premiums. Between 2007–08 and 2017–18, the greatest increases in average annual premiums were for home insurance, which rose by about 170% in real terms across northern Australia.

We wanted to test if there was any relationship between the rate of non-insurance and the average premium per $1,000 sum insured. That is, is there a higher rate of non-insurance in areas where average premiums are generally higher (relative to sums insured)? As seen in figure 12.4, rates of non-insurance do not appear to have strong correlation with average premium per $1,000 sum insured. However, we observed that the majority of northern Australia postcodes with non-insurance rates under 40% have premiums of less than $6.50 per $1,000 sum insured. Postcodes with non-insurance rates over 40% tend to have a large range of average premium per $1,000 sum insured.

Non-insurance in north Western Australia

The highest average rates of non-insurance in northern Australia can be observed in many of the north Western Australia postcodes, with many postcodes showing rates of non-insurance in excess of 35%.

The average rate of non-insurance for north Western Australia is around 40%, which in absolute terms, suggests that around 10,740 properties were without home building insurance in 2016. The overall rate of non-insurance in north Western Australia increased by around 9 percentage points between Census years, or an additional 4,175 properties did not have insurance.
Figure 12.5: Change in the rates of non-insurance in north Western Australia between Census years 2011 and 2016, and the non-insurance rate in 2016

Source: ACCC analysis of data obtained from insurers and 2011 and 2016 ABS Census data.

Figure 12.5 shows the rates of non-insurance in most north Western Australia postcodes had remained broadly the same between 2011 and 2016 (image on the left). We observed substantial increases (shaded orange tending to red in the image on the left) in the rates of non-insurance of between 21 and 28 percentage points in five postcodes, including in Karratha (6714), Roebourne (6718), Port Hedland (6721), South Hedland (6722) and Broome (6725) however, some of these postcodes are not readily visible on the map above. Home building premiums and premiums per sum insured in these postcodes were, on average, above the north Western Australia and northern Australia averages in 2016–17.

Eight of the 10 most expensive regions to insure in 2017–18 were located in the north of Western Australia and these postcodes were facing average premiums that are between three and 10 times the average price for the southern part of Australia. As confirmed in our consumer research discussed in the next section, cost is one of the major factors for consumers in the decision not to purchase home and/or contents insurance.

Postcodes outside large regional towns (for example, postcodes that are more remote, rural and inland from the coastline) tended to show higher rates of home building non-insurance when compared with postcodes for large regional town centres. The average rate of non-insurance in these postcodes was between 60 and 90%, and has increased between Census years when considered as a proportion of the total number of insurable home buildings.

Interestingly, some of the postcodes outside large towns had average annual premiums below the state average. This was particularly evident in regional areas such as Newman (6753) where non insurance rates were over 55% while average home building insurance premiums were around $1,715 per year compared with the state average in north Western Australia of around $2,800 in 2016–17. Newman had an IER ranking of 2, indicating many households in this region had lower incomes.
While our findings indicate that most postcodes in north Western Australia observed an increase in the rate of home building non-insurance by around 5 to 10% between Census years, there are some postcodes where rates of insurance have improved.

Postcodes for regional towns such as Carnarvon (6701), Exmouth (6707), Kununurra (6743), Cable Beach (6726), Broome (6725) and communities around the Dampier Archipelago (6713) have the highest rates of insurance in the north Western Australia region. That is, 70% or more of all insurable properties in these areas have home building insurance despite having some of the highest average home insurance building premiums in Australia.

Cable Beach, which is adjacent to Broome, reduced its rate of non-insurance from 44% to around 20%, despite an increase in average premiums. While Broome still has a relatively high rate of insurance, the incidence of non-insurance has increased around 2% to 24% in 2016.

**Non-insurance in the Northern Territory**

The Northern Territory presents a similar story to the north of Western Australia. Postcodes for larger town centres and regional hubs tended to have higher rates of home building insurance compared to more remote postcodes.

In the Northern Territory, we estimated that around 13,165 properties (26%) did not have home building insurance in 2016. Data for the 2011 year is limited, and we could not make reliable estimations for the rates of non-insurance between the two Census years.

The largest postcodes around the Darwin region by number of home buildings (generally consisting of between 1,000 and 8,200 homes) had rates of insurance of at least 80%. These postcodes are distinguishable in figure 12.6 by the areas shaded lighter orange. Postcodes for Coolalinga (0835), Zuccoli (0832), Dundee Downs and Dundee Beach (0840) are areas near Darwin City that showed home building insurance rates of over 95%.

Higher rates of insurance within the Darwin region are not surprising. The average home building insurance premiums within the Darwin region were less than the average for northern Australia, around or below $1,860 in 2016–17.

Figure 12.6, shows the rates of insurance have some correlation with the index of available economic resources in those areas. The most advantaged postcodes, as ranked by the IER, are more likely to have home building insurance.
Alice Springs (0870) was another postcode that returned a high rate of insurance with at least 70% of properties covered. Average home building insurance premiums for Alice Springs were lower than those seen around Darwin at around $1,200.

Apart from central Alice Springs, our findings suggest that postcodes closer to central Australia were less likely to have home building insurance. Risk exposure to extreme weather conditions is highest for coastal towns so residents of properties towards central Australia may perceive the risk of weather events to be lower (or non-existent).

The Northern Territory has several postcodes that cover large areas of sparsely populated land. These postcodes generally have non-insurance rates of greater than 50%. For example, the postcodes surrounding central Alice Springs showed rates of non-insurance between 40% and 80%.

**Non-insurance in north Queensland**

North Queensland had the greatest number of insurable properties in northern Australia, and in absolute terms accounted for around 85% of the total insurable properties in northern Australia. In north Queensland, we estimated that there are around 62,125 households (or around 17% of the total number of properties) that did not have home building insurance in 2016.

Between 2011 and 2016, the overall rate of non-insurance increased by seven percentage points representing an additional 32,300 properties that did not have home building insurance.

We found that most postcodes in north Queensland have relatively low rates of non-insurance (less than 30%), however the rates of non-insurance have progressively increased in the five years to 2016 (shaded orange to red in the map on the left of figure 12.7). These postcodes are not readily visible in figure 12.7, but are generally clustered around the larger towns such as Townsville and Cairns. We have provided overviews of selected postcodes in figure 12.8 to show the rates of non-insurance more clearly.
A number of postcodes along the coastline have high rates of insurance when compared with the state average. These areas tended to be the large regional centres such as Rockhampton, Mackay, Cairns and Townsville, and the postcodes between these towns. The rates of non-insurance in these postcodes generally ranged between 10% and 20%. Average premiums for home insurance in Rockhampton, Mackay, Cairns and Townsville ranged between $1,600 and $3,160 in 2016–17.
In some postcodes, we did not observe a strong correlation between premiums and the rates of non-insurance. For example, areas with average home building insurance premiums below the north Queensland average generally had higher rates of non-insurance than those areas with premiums above the north Queensland average. Average home building insurance premiums in north Queensland were around $1,870 in 2016–17, and most premiums throughout the regions varied between around $1,000 and $2,500.

Some postcodes of north and central Queensland such as Corfield (north-west of Longreach), and Glenden and Middlemount (west of Mackay) had estimated rates of non-insurance of around 80% to 95%. These regional postcodes comprise smaller numbers of properties (less than 500) and generally service local mining and agricultural industries. Average home building insurance premiums in these postcodes ranged between $1,000 and $1,250 in 2016–17.

Postcodes in far north Queensland generally had higher rates of non-insurance across both the 2011 and 2016 Census years, in excess of 85%. Regions in far north Queensland such as Thursday Island and Seisia are examples of high rates of non-insurance. The average premium for home insurance in Seisia was $8.87 per $1,000 of sum insured in 2016–17 compared with an average of $4.38 per $1,000 sum insured in northern Australia generally.

Far North Queensland also ranked as the most disadvantaged area according to the IER indicating communities in this area generally had a relative lack of access to economic resources.
Rates of home building non-insurance in the rest of Australia

We estimated just over 11% of, or up to 900,000, properties throughout Australia were without home building insurance in 2016–17, of which 86,030 were in northern Australia. The estimated rate of home building non-insurance in the rest of Australia (that is, excluding northern Australia) was just under 11% in 2016–17.

Figure 12.9 provides an overview of the rates of non-insurance around Australia. Non-insurance rates in capital cities drive the overall figures in each state and territory because of the larger proportion of the population residing in these areas.

Figure 12.9: Rates of home (building) non-insurance in Australia in 2016–17

Source: ACCC analysis of data obtained from insurers and 2016 ABS Census data.
Note: We used 2016–17 data for the northern Australia regions and 2017–18 data for the rest of Australia.

The rates of non-insurance in South Australia, Victoria and Tasmania were broadly consistent with, or lower than, the national average non-insurance rate of around 11%. The ‘whole-of-state’ non-insurance average for Western Australia was also consistent with the national average, reflecting stronger rates of insurance in the southern part of the state compared to the north. Non-insurance rates were higher than the national average in the Northern Territory, Queensland, New South Wales and the ACT.

As noted earlier, the measures of non-insurance presented here refer to relevant properties that are not insured under either a home insurance product or a (combined) home and contents insurance product.
There is generally a one to two percentage point difference between the state and territory and capital city rate of non-insurance, although the rate of non-insurance in Darwin, while high by national standards, is significantly lower than the rate in the rest of the Northern Territory. Average home building insurance premiums in capital cities are generally less than the average premiums seen in non-metropolitan regional areas and in northern Australia.

12.3 Estimating and understanding non-insurance: a survey approach

This section of the report draws on the findings of our consumer surveys to discuss the estimated proportion of home owners in northern Australia who have home (building) insurance, whether uninsured home owners had it in the past and why they had decided against it. Contents insurance is then described in the same way, followed by flood cover.

For some key indicators, the findings of the survey do not match the findings of our analysis of information collected from insurers. As we noted earlier, in such instances where we collected information from both sources, we consider information obtained from insurers to more accurately represent the true situation than the survey. The survey has been important, however, as it has filled important gaps in information that we could not obtain from insurers or public consultation.

Home building insurance

More than nine in 10 survey respondents in northern Australia had home building insurance

Of the 1,600 respondents to the survey, two-thirds owned (or were paying off) their own home (we excluded owner-occupiers of apartments, given the mandatory requirement for strata properties to hold strata insurance). The rate of home building insurance among these owner-occupiers was relatively high: 95% in northern Australia and 96% in the rest of Australia. Home owners of north Queensland were more likely to have home insurance (97%) than home owners of the Northern Territory (93%) or the north of Western Australia (90%).

Of the 5% of residents who did not have home building insurance, six in 10 had had it in the past

Of the home owners in northern Australia who responded they did not have home building insurance, 61% said they had had it in the past. The attrition rate was markedly higher in north Western Australia, where 79% of those without home building insurance had had it in the past (compared with 55% and 53% in north Queensland and Northern Territory respectively).

Cost was the main reason not to have home building insurance

Many (57%) home owners without home building insurance had thought about getting it but decided against doing so. Again this was higher in north Western Australia than elsewhere. The top two reasons given for this decision were not being able to afford the premium (52%) and not being able to justify the cost (45%). The third most common reason was the perception that their risk was low (6%).

Most residents who had home building insurance considered it essential. One in four uninsured residents agreed

Home owners in northern Australia with home building insurance were asked how important they considered this insurance to be. The same question was asked of home owners who did not have it. The survey found that most residents who had home building insurance considered it to be essential, or at least very important. Home owners without insurance appeared to value it, but not to the same extent.

---

It is possible that the survey topic meant that people who were insured were more likely to respond than people with no insurance.
Table 12.3: Northern Australia residents’ perception of the importance of home building insurance

<table>
<thead>
<tr>
<th>Perceived importance</th>
<th>Home owners with home building insurance</th>
<th>Home owners without home building insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>1,056</td>
<td>51</td>
</tr>
<tr>
<td>Essential</td>
<td>70%</td>
<td>24%</td>
</tr>
<tr>
<td>Very important</td>
<td>23%</td>
<td>29%</td>
</tr>
<tr>
<td>Quite important</td>
<td>6%</td>
<td>20%</td>
</tr>
<tr>
<td>Not very important</td>
<td>1%</td>
<td>19%</td>
</tr>
<tr>
<td>Not at all important</td>
<td>0%</td>
<td>6%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>0%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Home owners excluding apartment owners.

Contents insurance

More than eight in 10 residents of northern Australia had contents insurance

Among respondents to our survey, the rate of contents insurance was 83% in northern Australia, which was similar to the rest of Australia (82%). Insurance of contents was highest in north Queensland (86%), falling to 82% in the Northern Territory and 75% in north Western Australia. This is a similar pattern to that observed with home building insurance.

The attrition rate for contents insurance was lower than for home building insurance

Of northern Australian residents who said they did not have contents insurance, just 47% said they had it in the past. This was broadly similar for the three northern Australian regions. The comparable figure among those who had previously had home building insurance was 61%.

Cost was the main reason not to have contents insurance

Overall 57% of residents without contents insurance said they had thought about getting contents insurance but decided not to. The comparable figure for home building insurance was also 57%. Reasons for not having contents insurance were the same as for home building insurance: 42% of respondents who had considered contents insurance but decided against it said they could not afford the premium and 36% said they could not justify the cost. However, 19% also stated that they did not think their contents were worth insuring. Only 3% of home owners with an uninsured home building said this. Perceived risk was also a factor: 12% said they perceived the risk of loss or damage to their contents to be low.

Most residents with contents insurance considered it to be at least ‘very important’. Among uninsured residents, less than three in 10 agreed with this

The survey found that contents insurance is generally perceived as less important than home building insurance among residents of northern Australia. Of the residents with contents insurance, half (53%) considered it to be essential and a further 27% described it as very important. There is a marked difference however between these opinions and the opinions of residents without contents insurance of whom only 8% considered it essential while 20% described it as ‘very’ important.
Table 12.4: Northern Australia residents’ perception of the importance of contents insurance

<table>
<thead>
<tr>
<th>Perceived importance</th>
<th>Residents with contents insurance</th>
<th>Residents without contents insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>1,334</td>
<td>266</td>
</tr>
<tr>
<td>Essential</td>
<td>53%</td>
<td>8%</td>
</tr>
<tr>
<td>Very important</td>
<td>27%</td>
<td>20%</td>
</tr>
<tr>
<td>Quite important</td>
<td>13%</td>
<td>29%</td>
</tr>
<tr>
<td>Not very important</td>
<td>6%</td>
<td>26%</td>
</tr>
<tr>
<td>Not at all important</td>
<td>1%</td>
<td>15%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>0%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: All respondents to the main northern Australia survey.

Renters and young people were less likely to have contents insurance

The survey found that people who were renting were the least likely to have contents insurance. Consistently, 59% of renters in northern Australia and 58% in the rest of Australia said they had contents insurance, meaning around 40% of renters therefore did not. This contrasts with home owners of whom 93% in northern Australia and 94% in the rest of Australia had contents insurance. Similarly, only 60% of people aged 18 to 29 reported having contents insurance.

Flood cover

In its final report on Natural disaster funding arrangements, the Productivity Commission found that many customers underestimate, or are sceptical about, the risks they are exposed to. The same report also found that while the incidence of flood cover has increased significantly, some stakeholders are concerned that the introduction of flood insurance may be leading to underinsurance, as some households are opting out of insurance altogether to avoid paying large premiums (for policies that include flood). We used the surveys as an opportunity to explore residents’ knowledge and attitudes towards flood cover.

Just over half of residents with insurance in northern Australia reported they had flood cover

In northern Australia, over half (55%) of residents with insurance who responded to our survey said they had flood cover. While this fell to 42% for the rest of Australia this was partly because of the large proportion (23%) who did not know if they had it or not. The attrition rate, that is, those who don’t have flood cover now but did in the past, is modest at 6% in northern Australia.

Table 12.5: Northern Australia and the rest of Australia incidence of flood cover among insured residents

<table>
<thead>
<tr>
<th>Have or had flood cover</th>
<th>North Qld</th>
<th>Northern Territory</th>
<th>North WA</th>
<th>Northern Australia (Total)</th>
<th>Rest of Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>852</td>
<td>318</td>
<td>211</td>
<td>1,381</td>
<td>422</td>
</tr>
<tr>
<td>Yes, I have flood cover</td>
<td>60%</td>
<td>54%</td>
<td>40%</td>
<td>55%</td>
<td>42%</td>
</tr>
<tr>
<td>No I don’t, but I had it in the past</td>
<td>5%</td>
<td>8%</td>
<td>9%</td>
<td>6%</td>
<td>10%</td>
</tr>
<tr>
<td>No I don’t, and I’ve never had it</td>
<td>25%</td>
<td>26%</td>
<td>36%</td>
<td>27%</td>
<td>25%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>10%</td>
<td>13%</td>
<td>16%</td>
<td>12%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: All respondents to the main northern Australia survey and rest of Australia survey who had contents insurance and/or home building insurance.

294 According to the main northern Australian survey, 24% of residents who were decision makers about insurance (i.e. eligible for this survey) were living in rented accommodation. A small proportion (2%) were living in public housing. Within northern Australia, the incidence of renting was higher in north Western Australia, where 41% were living in rented accommodation.

The incidence of flood cover among insured residents was highest in north Queensland (60%), significantly higher than in north Western Australia (40%) and the Northern Territory (54%).

**Why residents chose not to have flood cover: perceived low risk**

Most residents with insurance but no flood cover said that they chose not to have flood cover because they believed they were not at risk (71% in northern Australia and 65% in the rest of Australia). Some also said it was too expensive (4% and 15% respectively). Among the northern Australia regions, residents of north Western Australia were the most likely to say they did not have flood cover because it was too expensive (6%) compared with 4% for northern Queensland and 1% for the Northern Territory.

<table>
<thead>
<tr>
<th>Residents with insurance but not flood cover</th>
<th>Northern Australia</th>
<th>Rest of Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>I chose not to have flood cover because we are not at risk</td>
<td>71%</td>
<td>65%</td>
</tr>
<tr>
<td>I could not get flood cover for this property</td>
<td>4%</td>
<td>69%</td>
</tr>
<tr>
<td>I would like to have flood cover but it was too expensive</td>
<td>4%</td>
<td>15%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>16%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: All respondents to the main northern Australia survey and rest of Australia survey with insurance who knew they did not have flood cover.

Many of the spontaneous comments reflected residents’ uncertainty about their flood cover. They said they were ‘unsure’ if they had it or were unsure whether flood cover was included in storm or cyclone cover. Some renters said that they felt that flood cover would be the owner’s responsibility.

**The incidence of home and contents insurance among Indigenous residents of northern Australia**

The survey found the incidence of insurance among Indigenous residents in northern Australia was lower than the northern Australian average.

Eighty-eight per cent of Indigenous home owners in the main survey had home building insurance, compared with 95% among respondents overall. Only a very small proportion respondents to the SurveyMob survey owned (or were paying off) their own home. Of the 17% of residents who were, 73% had home building insurance.

Similarly, 65% of Indigenous residents who responded to the main survey had contents insurance which is significantly lower than the 83% for northern Australia overall. The likelihood of insurance cover was significantly lower for the SurveyMob sample, with only 16% of residents having contents insurance.

Among residents with home building and/or contents insurance, flood cover rates were also lower than for northern Australia overall. Around four in 10 (42%) Indigenous residents with insurance in the main survey reported having flood cover compared with 55% for the region overall. While the research indicated that 56% of respondents from the SurveyMob sample with insurance had flood cover, we caution that only a very low proportion of the sample had insurance so this observation is made off a small base. The results are summarised below.
Table 12.7: Northern Australia insurance cover among Indigenous residents

<table>
<thead>
<tr>
<th>Insurance cover</th>
<th>Indigenous residents northern Australia (main survey)</th>
<th>Indigenous residents northern Australia (SurveyMob)</th>
<th>All residents northern Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>68</td>
<td>100</td>
<td>1,600</td>
</tr>
<tr>
<td>Home owners with home building insurance</td>
<td>88% (among 50% who were home owners*)</td>
<td>73% (among 17% who were home owners)</td>
<td>95% (among 67% who were home owners*)</td>
</tr>
<tr>
<td>Residents with contents insurance</td>
<td>65%</td>
<td>16%</td>
<td>83%</td>
</tr>
<tr>
<td>Insured residents with flood cover</td>
<td>42%</td>
<td>56%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: All respondents to the main northern Australia and SurveyMob surveys.
* Caution, low base

Indigenous residents generally placed a lower importance on insurance

Based on the main survey, Indigenous home owners with insurance were less likely to consider home building insurance ‘essential’ compared with home owners with insurance in northern Australia generally (43% compared with 70%). However, the majority considered it to be at least very important. The proportion of home owners in the SurveyMob sample is too small to present a meaningful analysis of this measure.

The main survey also found that Indigenous residents with contents insurance considered contents insurance ‘important’ but were less likely to consider it ‘essential’ compared with residents in northern Australia generally (39% compared with 53%).

As noted previously, the incidence of contents insurance among Indigenous residents who responded to the SurveyMob survey was lower than for residents of northern Australia generally, although notably higher in Queensland (21%) compared with the Northern Territory (6%). Only 22% of residents in the SurveyMob sample with contents insurance considered it ‘essential’ compared with 53% overall.

Indigenous residents in the main survey expressed the same types of reasons for not having contents insurance or not having flood cover as did residents in the main survey generally. That is, for contents insurance 50% said they could not afford the premium and 33% said they could not justify the cost. However, of those who did not have contents insurance, 75% said they had never thought about having it.

Reflecting just on the SurveyMob sample, again the majority (58%) of those who did not have contents insurance said they had never thought about having it. Of those who had thought about it but decided against it, the reason was cost: 69% said they could not afford the premiums, while 31% said they could not justify the cost. The results also indicate that trust was a concern for Indigenous respondents. One-quarter didn’t believe they would be able to get insurance if they tried, and 13% said they didn’t trust insurers (which we interpret to be they may not be successful if they tried to make a claim).

The incidence of flood cover was also lower among Indigenous respondents. Of the Indigenous respondents to the main northern Australia survey who had insurance, 42% had flood cover (compared with 55% for the region overall). While the SurveyMob rate of flood insurance is slightly higher at 56%, care must be taken in interpreting this result as the incidence of insurance overall was much lower. Many Indigenous residents who had insurance but not flood cover believed that ‘they were not at risk’ of flood. A small number (five) of residents in the SurveyMob sample (who didn’t have insurance) said that they had never heard of flood cover.

One resident in the SurveyMob sample also specifically commented that typical insurance policies often do not suit Indigenous people, particularly in relation to insuring contents and the size of a typical excess:

_The excess is too high, most items are worth less than $1,000 to $2,000, with a $500 excess, it’s cheaper to replace the items than claim through insurance... These days, a TV is less than $1,000. A lot of people in my community would not have items of a significant value to justify the cost of the_
insurance. Unless you have jewellery or artwork, Centrelink says your contents are only worth what you’d get in a garage sale for it.

People in my socio-economic group don’t buy $10,000 lounge suites. I am yet to meet anybody in the Aboriginal community who owns high end furniture. The most valuable item that people in my community own is a car. We’re not people who value jewellery. The most valuable things I own are my artworks, which were mostly given to me by Elders from other communities, so the personal value is irreplaceable.

12.4 Estimating the value (sum insured) of home buildings and contents

One of the causes of underinsurance includes consumers setting their sum insured amounts too low. This can be because of a lack of knowledge required to accurately estimate the cost of rebuilding a home and replacing home contents, but it could also be part of a consumer’s deliberate effort to reduce an insurance premium. We used the consumer surveys as an opportunity to explore how residents of northern Australia estimated their sum insured, and importantly, how regularly they are reviewing it. An accurate sum-insured estimate is very important, but particularly so for a sum-insured policy which is typically the most common (see box 12.2).

Box 12.2: Types of insurance policies

A sum insured policy will set a maximum level of cover and any payout is limited with reference to that amount. There could be limits for individual items or events. The insurer may reserve the right to decide if it will rebuild, replace or pay.

A safety net policy will pay a specified percentage above the sum insured amount. Insurers are increasingly offering a safety net policy in case a consumer under-insures.

A total or complete replacement policy will pay all reasonable costs to repair, replace or rebuild (taking into account policy exclusions). Total replacement only applies to building insurance.

Home building insurance: estimating the sum insured value

The majority of home owners we surveyed in northern Australia with home building insurance said that their policy was a sum insured policy (84%), however the proportion may be higher as an additional 12% did not know. Only 4% said they did not have a sum insured policy. The incidence of uncertainty about their policy type was higher among Indigenous respondents (37%).

Residents generally considered appropriate factors to estimate sum-insured, but some were risking under-insurance

One-third (34%) of home owners in northern Australia with home building insurance said they received advice on what building insurance to purchase from either an insurance broker or from the insurer directly. It was more common for residents in northern Australia to seek advice from a broker (10% compared with 4% in the rest of Australia).

The sum-insured of a policy should reflect a current estimate of the cost to re-build or repair damaged property. The survey suggested respondents generally considered appropriate factors to estimate their sum-insured solely or in combination. For example, 64% used an estimate of rebuilding cost, 12% an online calculator, 12% advice from a broker and 10% advice from a call centre). However others used factors that may result in a less accurate estimate, such as what they had paid for their house (25%), or

---

296 In this context, we intended survey respondents to indicate whether they had sought advice generally about choosing insurance. This could have simply been asking questions through a call centre. We did not intend survey respondents to distinguish whether they sought personal financial advice about their insurance needs from someone qualified to provide such tailored advice.

297 Multiple responses were allowed for this question so the responses sum to greater than 100%.
what they could sell it for (17%). Some (14%) reported they considered what they could afford (that is, the resulting premium).

Some spontaneous comments reveal more about how people calculated their sum insured. Some ‘guessed’, while others showed a high regard for important costs to consider:

  
  I measured the house to work out the square metre, and then I checked different places to get the building cost per square metre; factored in the cost of removal of what was left of the house if destroyed, then factored in 12 months’ rent what would cost us.

Of the 19% of residents with a sum insured policy who reported asking an insurer’s call centre, or using an insurer’s online calculator, to help them estimate their sum insured, nearly one–fifth (17%) said that they chose a lower sum insured for their home than the one suggested to them based on information they provided. Their main reasons for doing so were cost (either they thought the premium was too expensive or too high, or they didn’t believe it).

**Most chose or reviewed their sum insured at the last renewal**

Seventy-one per cent of residents with a sum insured policy said they had reviewed it at the last renewal (or chose it then if it was a new policy), but over 10% had not reviewed it in the last two years.

**Contents insurance: estimating the sum insured value**

Among survey respondents, replacement value was the most commonly used method (67%) to calculate how much to insure contents for and 10% followed a broker’s recommendation. As for estimating the sum insured for buildings though, people used other methods which may come with a higher risk of underinsuring. For example, 22% ‘thought about how much each item cost when it was bought’ and the same proportion worked it out based on what they could afford. A small proportion (8%) only insured certain items, which suggested a conscious decision to under-insure (unless they had a specific single item insurance policy, which we did not test for).

Two–thirds (68%) reported reviewing the value of their contents at the last renewal (or choosing it if this was the first policy). Over 13% had not reviewed it within the last two years.

**12.5 Loss or damage from an insurable event in northern Australia**

This section of the report discusses findings from the consumer survey about respondents’ experiences of insurable events in the last five years that caused loss or damage, in particular events caused by the weather such as cyclone and floods. We asked residents the estimated value of their most recent loss, the types of insurance they had at the time, the success of any claim they made, and the impact that not having insurance had on those affected.

Almost four in 10 residents of northern Australia suffered loss or damage from an insurable event during the last 5 years

Among our survey sample, the proportion of households affected by at least one insurable event such as bushfire, flood, cyclone, accidental damage and theft during the last 5 years was 38% in northern Australia compared with 34% in the rest of Australia.

As shown in figure 12.10, residents of northern Australia who had experienced loss or damage were almost twice as likely to have experienced a weather event such as bushfire, storm, cyclone or flood than residents of the rest of Australia. One–quarter (26%) of residents in northern Australia experienced an event associated with the weather, compared with 14% in the rest of Australia.
Residents of northern Australia had higher value losses compared with the rest of Australia

On average, residents of northern Australia estimated the value of the loss or damage they experienced from their most recent event to be greater than residents of the rest of Australia. There were also difference across northern Australia.

For example, 17% of residents of northern Australia had losses under $1,000, compared with 28% for the rest of Australia. Looking across northern Australia, only 10% of residents of north Western Australia estimated their loss or damage to be under $1,000 for example, compared with 18% in north Queensland and 21% in the Northern Territory.

Table 12.8: Northern Australia and the rest of Australia residents’ estimated value of the loss or damage from a recent insurable event

<table>
<thead>
<tr>
<th>Estimated loss</th>
<th>Northern Australia</th>
<th>Rest of Australia</th>
<th>North QLD</th>
<th>NT</th>
<th>North WA</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>613</td>
<td>170</td>
<td>358</td>
<td>161</td>
<td>94</td>
</tr>
<tr>
<td>Under $1,000</td>
<td>17%</td>
<td>28%</td>
<td>18%</td>
<td>21%</td>
<td>10%</td>
</tr>
<tr>
<td>Between $1,000 and $9,999</td>
<td>49%</td>
<td>45%</td>
<td>46%</td>
<td>48%</td>
<td>59%</td>
</tr>
<tr>
<td>Between $10,000 and $49,999</td>
<td>21%</td>
<td>15%</td>
<td>19%</td>
<td>22%</td>
<td>26%</td>
</tr>
<tr>
<td>Between $50,000 and $99,999</td>
<td>4%</td>
<td>6%</td>
<td>5%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Over $100,000</td>
<td>5%</td>
<td>4%</td>
<td>7%</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>4%</td>
<td>2%</td>
<td>5%</td>
<td>5%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: All respondents to the main northern Australia and rest of Australia surveys who experienced an insurable event in the last five years.

Bushfire, storm, cyclone and flood caused higher value losses

Residents’ estimated cost of the loss or damage caused by weather events in northern Australia was generally higher than the cost from other events. For example, only 13% of residents experiencing bushfire, storm, cyclone or flood estimated loss or damage of less than $1,000 for their most recent
event, while the comparable figure for other types of events was 25%. Seven per cent of residents affected by bushfire, storm, cyclone or flood estimated their loss or damage to be over $100,000. None of the other events created this magnitude of loss or damage. Regardless of the cause of the damage, almost half of the insurable events resulted in estimated damage of between $1,000 and $9,999, with 70% falling between $1,000 and $49,999.

**Around nine in 10 people affected by an insurable event had some form of insurance**

Nationally, the surveys found that almost all residents who experienced an insurable event in the last five years had some form of home or contents insurance at the time of the event:

- Many were insured for both building and contents (74% northern Australia; 64% rest of Australia).
- Some were insured only for their contents (11% northern Australia; 18% rest of Australia).
- A few were insured only for their building (6% northern Australia and 10% rest of Australia).

In northern Australia, 9% were not insured at all when their most recent insurable event occurred while in the rest of Australia the comparable figure was 7%.

There were significant differences in these terms by geographic region. Affected residents of north Western Australia were the least likely to have had insurance at the time of their most recent event, with 26% of respondents saying they had no insurance at the time compared with 6% for both north Queensland and the Northern Territory.

Indigenous residents were also less likely to have had insurance at the time of their most recent event: 21% of Indigenous residents had no insurance for this event compared with 9% in northern Australia generally.

**Three in four insured residents who had experienced an event in northern Australia made a claim**

Among northern Australian residents who had some insurance when their most recent event occurred, three in four (75%) made a claim. The table below shows which policy they claimed on. This means that one in four (24%) of residents in northern Australia who had some insurance and experienced an event did not claim. In the rest of Australia, the comparable figure was 19%.

Incidence of claiming was broadly similar across northern Australia, with three in four in each region making a claim.

**Table 12.9:** Northern Australia and the rest of Australia residents’ incidence of claiming for a recent insurable event

<table>
<thead>
<tr>
<th>Whether claimed/policy claimed on</th>
<th>North Queensland</th>
<th>Northern Territory</th>
<th>North Western Australia</th>
<th>Northern Australia</th>
<th>Rest of Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>318</td>
<td>143</td>
<td>69</td>
<td>530</td>
<td>156</td>
</tr>
<tr>
<td><strong>Total: made a claim</strong></td>
<td>74%</td>
<td>78%</td>
<td>74%</td>
<td>75%</td>
<td>81%</td>
</tr>
<tr>
<td>Only on home insurance</td>
<td>30%</td>
<td>34%</td>
<td>39%</td>
<td>32%</td>
<td>39%</td>
</tr>
<tr>
<td>Only on contents insurance</td>
<td>16%</td>
<td>20%</td>
<td>23%</td>
<td>18%</td>
<td>29%</td>
</tr>
<tr>
<td>Home and contents</td>
<td>26%</td>
<td>20%</td>
<td>9%</td>
<td>22%</td>
<td>11%</td>
</tr>
<tr>
<td>I claimed but unsure which policy</td>
<td>2%</td>
<td>4%</td>
<td>3%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>I did not claim at all</td>
<td>25%</td>
<td>21%</td>
<td>26%</td>
<td>24%</td>
<td>19%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>1%</td>
<td>1%</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: All respondents who experienced an insurable event and had insurance.
A high excess was the main reason why some did not claim

Almost half (46%) of all insured residents of northern Australia who did not claim responded ‘it wasn’t worth it because the excess was too high’. As noted in chapter 3, excess levels in northern Australia are generally higher than in the rest of the country. Ten per cent were worried it would raise their premium too high the next year, and 9% said the loss or damage was negligible. Of the people who did not claim because their excess was too high, over half (57%) had loss or damage under $1,000, while most of the remainder (40%) had damage between $1,000 and $9,999.

Table 12.10: Northern Australia residents’ main reasons for not claiming for a recent insurable event

<table>
<thead>
<tr>
<th>Reasons for not claiming</th>
<th>Had some insurance but did not claim</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>127</td>
</tr>
<tr>
<td>It wasn’t worth it because the excess was too high</td>
<td>46%</td>
</tr>
<tr>
<td>I was worried it would raise my premium too high the next year</td>
<td>10%</td>
</tr>
<tr>
<td>The loss or damage was negligible</td>
<td>9%</td>
</tr>
<tr>
<td>I did not have the right kind of insurance (e.g., building but not contents)</td>
<td>8%</td>
</tr>
<tr>
<td>The cause was not covered by my policy</td>
<td>5%</td>
</tr>
<tr>
<td>I received government assistance</td>
<td>2%</td>
</tr>
<tr>
<td>Other (too busy, fixed by self/not eligible)</td>
<td>17%</td>
</tr>
<tr>
<td>I don’t know/prefer not to say</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.

Base: All respondents to the main northern Australia survey who experienced a recent insurable event and who had some insurance but did not claim.

Although we reported earlier that 91% of residents who experienced an event had some form of insurance, the results indicated that not everyone had an insurance policy that covered the loss or damage they experienced. That is, 8% of people who had insurance said they didn’t have the right kind of insurance (for example, they might have had home insurance but not contents), and another 5% the cause of the damage was not covered by their policy.

Eight in 10 claims were completely successful

In northern Australia, 82% of those who made a claim on their home, contents or combined policy were successful (claim paid in full), compared with 73% for the rest of Australia. The rest were either partly successful, withdrew their claim or had it denied.

Table 12.11: Northern Australia and the rest of Australia residents’ claim outcome for a recent insurable event

<table>
<thead>
<tr>
<th>Success of the claim</th>
<th>Northern Australia</th>
<th>Rest of Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>393</td>
<td>126</td>
</tr>
<tr>
<td>100% successful (the insurer paid it in full)</td>
<td>82%</td>
<td>73%</td>
</tr>
<tr>
<td>Partly successful (the insurer paid part of it)</td>
<td>12%</td>
<td>20%</td>
</tr>
<tr>
<td>Withdrawn (did not proceed with claim)</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Denied (the insurer did not pay any of it)</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>I don’t know/prefer not to say</td>
<td>2%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.

Base: All respondents to the main northern Australia and rest of Australia surveys who experienced an insurable event and who had some insurance and made a claim.

The table below shows that claims with estimated losses under $10,000 were more likely than larger claims to be completely successful (that is, the insurer paid it in full and the consumer only had to pay the excess). The majority (87%) of residents with estimated losses of under $1,000 were completely successful. This fell to 68% for claims over $50,000.
Table 12.12: Northern Australia residents’ claim outcome by estimated value of loss or damage

<table>
<thead>
<tr>
<th>Success of the claim</th>
<th>Under $1,000</th>
<th>$1,000 to $9,999</th>
<th>$10,000 to $49,999</th>
<th>Over $50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>23</td>
<td>210</td>
<td>113</td>
<td>47</td>
</tr>
<tr>
<td>100% successful (the insurer paid it in full)</td>
<td>87%</td>
<td>88%</td>
<td>77%</td>
<td>68%</td>
</tr>
<tr>
<td>Partly successful (the insurer paid part of it)</td>
<td>4%</td>
<td>8%</td>
<td>15%</td>
<td>23%</td>
</tr>
<tr>
<td>Withdrawn (did not proceed with claim)</td>
<td>4%</td>
<td>1%</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>Denied (the insurer did not pay any of it)</td>
<td>0%</td>
<td>2%</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>4%</td>
<td>1%</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents to main northern Australia survey with insurance who claimed on a recent insurable event.

The financial impact of being uninsured

Residents who reported being uninsured when the event occurred were asked how difficult it had been for them to cover the cost of fixing or replacing what had been lost or damaged. One in four (26%) said it was extremely or very difficult; 15% fairly difficult and 54% not very or not at all difficult.

Although the base sizes for the following table are small, the data suggest that difficulty covering the cost of fixing or replacing the lost or damaged items increased with the quantum of the loss. That is, over half of those with losses under $1,000 said that it ‘was not difficult at all’ to cover the costs, compared with 25% for people who lost over $1,000. However the table shows that relatively small amounts can also cause difficulty, for example 17% of people who lost under $1,000 described it as ‘very difficult’ to fix or replace damaged property.

Table 12.13: Northern Australia residents’ rating of difficulty to replace lost or damaged property by estimated loss size

<table>
<thead>
<tr>
<th>Difficulty covering cost to fix or replace</th>
<th>Under $1,000</th>
<th>$1,000 and over</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>18*</td>
<td>36</td>
</tr>
<tr>
<td>It was extremely difficult</td>
<td>0%</td>
<td>14%</td>
</tr>
<tr>
<td>It was very difficult</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>It was fairly difficult</td>
<td>6%</td>
<td>19%</td>
</tr>
<tr>
<td>It was not very difficult</td>
<td>22%</td>
<td>17%</td>
</tr>
<tr>
<td>It was not difficult at all</td>
<td>56%</td>
<td>25%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>0%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents to main Northern Australia survey who experienced an insurable event in the last 5 years and had no insurance.
* Caution small base.

Residents who had been uninsured were then asked how they managed their loss. Many (41%) answered that they had used their savings, while 17% received assistance from the government. Others fixed damaged property themselves (9%), or received assistance from family and friends through gifts or loans of money or items (6%) or from their community (2%).

The experiences of insurable events among Indigenous residents of northern Australia

The table below shows that 31% of Indigenous residents from the main survey said that they had experienced loss or damage from an insurable event in the last five years, slightly lower than the 38% recorded for residents of northern Australia generally.

However the results were quite different for the SurveyMob sample of Indigenous residents, with more than half (56%) reporting they had experienced loss or damage from an insurable event in the past five years. In comparison with the region overall, these Indigenous residents were more likely to have experienced all types of events that we measured. For example, 41% had experienced bushfire, storm, cyclone or flood compared with 26% for the region overall.
### Table 12.14: Northern Australia Indigenous residents’ experience of an insurable event in the last 5 years

<table>
<thead>
<tr>
<th>Insurable event</th>
<th>Indigenous residents northern Australia (main survey)</th>
<th>Indigenous residents northern Australia (SurveyMob)</th>
<th>All residents northern Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>68</td>
<td>100</td>
<td>1,600</td>
</tr>
<tr>
<td>Residents with loss or damage last 5 years</td>
<td>31%</td>
<td>56%</td>
<td>38%</td>
</tr>
<tr>
<td>Bushfire, storm or cyclone or flood</td>
<td>22%</td>
<td>41%</td>
<td>26%</td>
</tr>
<tr>
<td>Broken or burst pipes</td>
<td>7%</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>Fire (not bushfire)</td>
<td>4%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>Theft</td>
<td>3%</td>
<td>17%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: All respondents to the main northern Australia and SurveyMob surveys.

Of the Indigenous residents in the main survey who experienced an insurable event in the past five years, 79% had either home or contents insurance (or both) at the time compared with 91% for northern Australian residents overall. These respondents reported a similar spread of the estimated value of the loss or damage compared with the region generally.

While a higher proportion of SurveyMob residents were affected by these events than residents in the region overall, only 30% had insurance. Four in 10 (41%) affected by an event estimated the value of loss or damage to be under $1,000. This compares to 17% from the main survey of northern Australia. More than half (54%) estimated the value of their loss to be between $1,000 and $9,999, which is similar to the main survey overall (49%). This means that 95% of the estimated loss values for the SurveyMob sample were less than $10,000.

There was a small difference in the proportion who claimed: 67% of affected Indigenous residents in the main survey and 65% of Indigenous residents in the SurveyMob sample who had insurance made a claim (compared with 75% for northern Australia overall).

One respondent to the SurveyMob sample provided the following reason for not claiming:

> I am still waiting for the fire/electrical damage to be settled that happened due to lightning strike during a previous storm—I did not have the money to pay the excess (the first $500) yet so they can start process on the previous claim.

Success rates of claims were also lower for Indigenous residents of northern Australia. Only 60% of Indigenous residents in the main survey and 64% from the SurveyMob survey reported their claims were ‘100% successful’ compared with 82% for northern Australia generally.

Uninsured residents affected by the event were asked how difficult it was to replace or fix lost or damaged items. Among the SurveyMob sample, one quarter (26%) reported that it was ‘extremely difficult’, compared with only 9% of the affected uninsured residents in the main incidence survey. Most (80%) considered it to be at least ‘fairly difficult’ (compared with 41% in the northern Australia incidence survey overall).
Table 12.15: Northern Australia Indigenous residents’ rating of difficulty to replace or fix property lost or damaged by an insurable event (SurveyMob)

<table>
<thead>
<tr>
<th>Difficulty</th>
<th>Indigenous residents northern Australia (SurveyMob)</th>
<th>All residents northern Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>39</td>
<td>54</td>
</tr>
<tr>
<td>It was extremely difficult</td>
<td>26%</td>
<td>9%</td>
</tr>
<tr>
<td>It was very difficult</td>
<td>28%</td>
<td>17%</td>
</tr>
<tr>
<td>It was fairly difficult</td>
<td>26%</td>
<td>15%</td>
</tr>
<tr>
<td>It was not very difficult</td>
<td>10%</td>
<td>19%</td>
</tr>
<tr>
<td>It was not difficult at all</td>
<td>10%</td>
<td>35%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>0%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents to the main northern Australia and SurveyMob surveys who had no insurance at the time of their most recent insurable event.

Affected SurveyMob residents without insurance replaced or fixed their items in a range of ways. About one-third (36%) used their savings, a figure similar to residents of northern Australia (41%). However, in other ways these Indigenous residents’ experiences were different from those described earlier in this report:

- Over half (56%) accepted some form of government assistance with another 15% accepting help from their community.
- 15% borrowed money from family and friends and another 10% were given or borrowed items such as clothing.
- 10% said they are still paying off their debts.

Table 12.16: Indigenous residents’ actions to replace or fix property lost or damaged by an insurable event if uninsured (SurveyMob)

<table>
<thead>
<tr>
<th>Actions taken</th>
<th>Indigenous residents northern Australia (SurveyMob)</th>
<th>All residents of northern Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>39</td>
<td>54</td>
</tr>
<tr>
<td>I accepted financial assistance from the government</td>
<td>56%</td>
<td>17%</td>
</tr>
<tr>
<td>I used my savings</td>
<td>36%</td>
<td>41%</td>
</tr>
<tr>
<td>I accepted financial assistance from the community</td>
<td>15%</td>
<td>2%</td>
</tr>
<tr>
<td>I borrowed money from family/friends</td>
<td>15%</td>
<td>6%</td>
</tr>
<tr>
<td>I moved house</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Other: I borrowed or received items from family/friends</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>Other: my stolen property was returned</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Other: I did nothing</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Other: I am slowly paying off from income/pension</td>
<td>10%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents to the main northern Australia and SurveyMob surveys who had no insurance at the time of their most recent insurable event.

12.6 Do insurance premiums cause financial pressure?

In chapter 3 of this report, we present a comprehensive analysis of trends in insurance premiums across northern Australia. While the analysis in chapter 3 more formally represents the price monitoring component of this inquiry, as part of our survey we also asked residents of northern Australia to estimate how much they are paying for insurance. This provided important context for the subsequent questions we asked residents about how much financial pressure they were feeling in paying for their insurance.
In chapter 15, we look beyond financial pressure to establish what more insurers could do to support customers experiencing payment difficulties. We explore the reasons why insurers generally do not offer fortnightly payments and access to Centrepay and consider whether they should. For many customers, being able to budget for insurance on a fortnightly basis or being given some support from their insurer to help catch up on a late payment might be the difference between them keeping their insurance and becoming uninsured. In addition we look in more detail at the basis for insurers imposing surcharges or loadings for paying by instalments.

The figure below shows the premium that residents reported paying for each policy type.

**Figure 12.11: Northern Australia residents’ premiums by policy type**

We also observed some regional differences. As summarised in the table below, 60% of residents of north Western Australia with a combined home and contents policy said they paid over $2,000 a year in premium, significantly higher than the 45% in north Queensland or 40% in the Northern Territory. In fact, 37% of residents with combined policies in north Western Australia reported paying $4,500 or more annually (or the monthly equivalent) in premium. This compares with 7% for north Queensland and 6% for the Northern Territory.
Table 12.17: Northern Australia residents’ premium paid by policy and region

<table>
<thead>
<tr>
<th></th>
<th>North Queensland</th>
<th>Northern Territory</th>
<th>North Western Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Home building insurance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N=</td>
<td>179</td>
<td>55</td>
<td>34</td>
</tr>
<tr>
<td>Under $1,000 annually</td>
<td>13%</td>
<td>19%</td>
<td>23%</td>
</tr>
<tr>
<td>Between $1,001 and $1,999</td>
<td>33%</td>
<td>32%</td>
<td>34%</td>
</tr>
<tr>
<td>Between $2,000 and $3,499</td>
<td>23%</td>
<td>16%</td>
<td>14%</td>
</tr>
<tr>
<td>Over $3,500</td>
<td>10%</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>I don’t know/prefer not to say</td>
<td>21%</td>
<td>26%</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Contents insurance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N=</td>
<td>299</td>
<td>126</td>
<td>119</td>
</tr>
<tr>
<td>Under $1,000 annually</td>
<td>51%</td>
<td>48%</td>
<td>39%</td>
</tr>
<tr>
<td>Between $1,001 and $1,999</td>
<td>19%</td>
<td>27%</td>
<td>30%</td>
</tr>
<tr>
<td>Between $2,000 and $3,499</td>
<td>8%</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>Over $3,500</td>
<td>4%</td>
<td>1%</td>
<td>6%</td>
</tr>
<tr>
<td>I don’t know/prefer not to say</td>
<td>18%</td>
<td>18%</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Combined home and contents insurance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N=</td>
<td>519</td>
<td>183</td>
<td>86</td>
</tr>
<tr>
<td>Under $1,000 annually</td>
<td>8%</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Between $1,001 and $1,999</td>
<td>37%</td>
<td>41%</td>
<td>19%</td>
</tr>
<tr>
<td>Between $2,000 and $3,499</td>
<td>31%</td>
<td>26%</td>
<td>15%</td>
</tr>
<tr>
<td>Between $3,500 and $4,499</td>
<td>7%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Over $4,500</td>
<td>7%</td>
<td>6%</td>
<td>37%</td>
</tr>
<tr>
<td>I don’t know/prefer not to say</td>
<td>10%</td>
<td>14%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents to the main northern Australia survey with building and/or contents insurance (including combined), N=1,385.
Note: Respondents with home insurance and contents insurance with separate suppliers answered for both home and contents separately.

Paying insurance created at least some financial pressure for about half of all policyholders

Our survey asked residents of northern Australia to rate the extent to which they felt under financial pressure to pay their most recent renewal, given their household income and other costs of living.

Residents with contents-only policies reported the least pressure; 54% said they felt ‘no’ pressure. They are represented by the middle band in figure 12.12 below. While intuitively we might expect a higher incidence of more financial pressure for combined home and contents policies compared with building-only policies because of the higher average premium, the data would suggest the financial pressure is similar, with around 16% experiencing a lot or extreme financial pressure. This could mean that households feeling very high levels of financial pressure are choosing to hold onto their home building insurance as a first priority and cancelling or not renewing their contents insurance.
Both monthly and annual payers experienced similar levels of pressure though it is unclear whether those paying monthly meant they felt pressure each month or not.

**Perceived pressure generally increases as the premium increases**

The survey results suggested that perceived pressure generally increased with premiums. That is, 63% of residents paying under $500 a year for home and/or contents insurance felt no financial pressure compared with 31% of people paying over $4,500 a year. However the survey showed that relatively lower premiums can still put households under a lot of pressure. For example, 7% of residents paying under $500 a year reported feeling a lot or extreme financial pressure.

**Table 12.18: Northern Australia residents' rating of financial pressure to pay premium by cost**

<table>
<thead>
<tr>
<th>Perceived pressure</th>
<th>Under $500 a year</th>
<th>$500 to $999 (about $41-$80 a month)</th>
<th>$1,000 to $1,499 (about $81-$125 a month)</th>
<th>$1,500 to $1,999 (about $126-$200 a month)</th>
<th>$2,000 to $2,499 (about $201-$250 a month)</th>
<th>$2,500 to $3,499 (about $251-$300 a month)</th>
<th>$3,500 to $4,499 (about $301-$375 a month)</th>
<th>Over $4,500 (more than $375 a month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>89</td>
<td>254</td>
<td>251</td>
<td>235</td>
<td>171</td>
<td>130</td>
<td>76</td>
<td>108</td>
</tr>
<tr>
<td>No financial pressure</td>
<td>63%</td>
<td>57%</td>
<td>51%</td>
<td>45%</td>
<td>50%</td>
<td>39%</td>
<td>34%</td>
<td>31%</td>
</tr>
<tr>
<td>A little financial pressure</td>
<td>16%</td>
<td>18%</td>
<td>21%</td>
<td>27%</td>
<td>22%</td>
<td>20%</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Some financial pressure</td>
<td>13%</td>
<td>18%</td>
<td>15%</td>
<td>17%</td>
<td>16%</td>
<td>24%</td>
<td>26%</td>
<td>25%</td>
</tr>
<tr>
<td>A lot of financial pressure</td>
<td>4%</td>
<td>5%</td>
<td>11%</td>
<td>10%</td>
<td>12%</td>
<td>15%</td>
<td>20%</td>
<td>19%</td>
</tr>
<tr>
<td>Extreme financial pressure</td>
<td>3%</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
<td>4%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents to the main northern Australia survey with building and/or contents insurance, N=1,385.
Actions taken when feeling pressure: the higher the premium the more likely to act

People paying higher premiums tended to respond differently to this pressure compared with those paying lower premiums. Over two-thirds (37%) of residents who were paying over $4,500 in annual premium (or the monthly equivalent) who felt this pressure increased their excess, compared with only 10% of those under $500 a year. Almost one-third (30%) reduced how much they insured their building or contents for and 11% arranged to pay monthly instead of yearly.\(^{298}\) Paying in instalments is a typical strategy to manage expenses and we look at this in more detail in chapter 15.

Table 12.19: Northern Australia residents’ actions when feeling a lot of, or extreme financial pressure to pay premium

<table>
<thead>
<tr>
<th>Action taken when felt pressure</th>
<th>Under $500 a year (about $40 a month or less)</th>
<th>$500 to $999 a year (about $41–$80 a month)</th>
<th>$1,000 to $1,499 a year (about $81–$125 a month)</th>
<th>$1,500 to $1,999 a year (about $126–$200 a month)</th>
<th>$2,000 to $2,499 a year (about $201–$250 a month)</th>
<th>$2,500 to $2,999 a year (about $251–$300 a month)</th>
<th>$3,500 to $4,499 a year (about $301–$375 a month)</th>
<th>Over $4,500 (more than $375 a month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>10*</td>
<td>19*</td>
<td>30</td>
<td>28*</td>
<td>23*</td>
<td>20*</td>
<td>17*</td>
<td>27*</td>
</tr>
<tr>
<td>I didn’t do anything</td>
<td>30%</td>
<td>47%</td>
<td>43%</td>
<td>46%</td>
<td>39%</td>
<td>45%</td>
<td>35%</td>
<td>26%</td>
</tr>
<tr>
<td>I arranged to pay monthly instead of yearly</td>
<td>0%</td>
<td>5%</td>
<td>7%</td>
<td>0%</td>
<td>9%</td>
<td>0%</td>
<td>0%</td>
<td>11%</td>
</tr>
<tr>
<td>I asked insurer to reduce the quote</td>
<td>30%</td>
<td>21%</td>
<td>27%</td>
<td>32%</td>
<td>22%</td>
<td>25%</td>
<td>35%</td>
<td>33%</td>
</tr>
<tr>
<td>I reduced sum insured</td>
<td>0%</td>
<td>11%</td>
<td>10%</td>
<td>7%</td>
<td>4%</td>
<td>10%</td>
<td>18%</td>
<td>30%</td>
</tr>
<tr>
<td>I increased the excess</td>
<td>10%</td>
<td>5%</td>
<td>13%</td>
<td>11%</td>
<td>0%</td>
<td>5%</td>
<td>24%</td>
<td>37%</td>
</tr>
<tr>
<td>I removed flood from my policy</td>
<td>0%</td>
<td>5%</td>
<td>3%</td>
<td>4%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>I removed other optional extras from my policy</td>
<td>0%</td>
<td>11%</td>
<td>10%</td>
<td>7%</td>
<td>4%</td>
<td>0%</td>
<td>0%</td>
<td>7%</td>
</tr>
<tr>
<td>I got other quotes but stayed with current insurer</td>
<td>10%</td>
<td>5%</td>
<td>13%</td>
<td>11%</td>
<td>26%</td>
<td>15%</td>
<td>35%</td>
<td>15%</td>
</tr>
<tr>
<td>I switched to an insurer with a cheaper quote</td>
<td>20%</td>
<td>16%</td>
<td>3%</td>
<td>21%</td>
<td>22%</td>
<td>10%</td>
<td>0%</td>
<td>37%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents to the main northern Australia survey with building and/or contents insurance, who reported feeling a lot of, or extreme, financial pressure.
* Caution, small base.

Over half (54%) of those feeling extreme pressure at renewal time sought at least one quote from an alternative insurer for their home building insurance.\(^{299}\) People who did not feel that pressure were less likely to seek multiple quotes.

\(^{298}\) Caution, results analysed from small bases.

\(^{299}\) We excluded people who received advice from brokers from the data for this analysis on the assumption that brokers obtained multiple quotes on behalf of these consumers.
Table 12.20: Northern Australia residents’ actions to seek multiple quotes according to rating of financial pressure

<table>
<thead>
<tr>
<th>No. of quotes when bought or renewed home policy</th>
<th>No financial pressure</th>
<th>A little financial pressure</th>
<th>Some financial pressure</th>
<th>A lot of financial pressure</th>
<th>Extreme financial pressure</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>417</td>
<td>204</td>
<td>173</td>
<td>116</td>
<td>26*</td>
</tr>
<tr>
<td>None, I renewed with existing insurer</td>
<td>59%</td>
<td>53%</td>
<td>48%</td>
<td>52%</td>
<td>42%</td>
</tr>
<tr>
<td>One quote</td>
<td>6%</td>
<td>7%</td>
<td>8%</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>Two quotes</td>
<td>11%</td>
<td>16%</td>
<td>14%</td>
<td>14%</td>
<td>8%</td>
</tr>
<tr>
<td>Three or more quotes</td>
<td>17%</td>
<td>20%</td>
<td>26%</td>
<td>22%</td>
<td>35%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>7%</td>
<td>3%</td>
<td>4%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>I prefer not to say</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents to the main northern Australia survey with building and/or combined insurance, N = 1,075.
* Caution, small base.

12.7 Industry initiatives to provide more accessible insurance to lower-income households

Over the past decade, consumer advocacy groups have been raising concerns about the rising costs of general insurance, and particularly about the impact on consumers on fixed incomes (pensioners) and low incomes. These concerns generated more focused attention from all levels of governments, with a range of subsequent reviews examining the issues raised and proposing possible solutions, for example the Senate Economic Reference Committee inquiry into Australia’s general insurance industry, and of course this inquiry.

Against this background, Good Shepherd Microfinance (now known as Good Shepherd Australia New Zealand) a not for profit and Australia’s largest microfinance provider, and the Brotherhood of St Laurence, began their own work to better understand the impacts of non-insurance on low income earners and Indigenous communities.

Through its work, Good Shepherd reached some informed conclusions about the four main barriers to entry for insurance for people on low incomes. It estimated that approximately 1.5 million people nationally are directly impacted by these four fundamental barriers to entry for insurance:

- **affordability**: where the price point excludes people on low incomes from participating
- **accessibility**: where other product features, such as payment frequency and method, excludes people from participating
- **understanding**: where a lack of financial literacy, and therefore a lack of understanding of insurance and the contribution that insurance makes to personal financial resilience—excludes people on low incomes from participating
- **trust**: where a lack of trust of insurers (‘they won’t pay out’; ‘they won’t insure me’; ‘did you hear about this claim where.’) results in people choosing not to participate.\(^{300}\)

In 2013, Good Shepherd released a discussion paper on insurance access for people on low incomes.\(^{301}\) As discussed in its subsequent report, *Covering the essentials: Increasing access and affordability of insurance for people on low incomes*\(^{302}\), there was generally agreement that non-insurance is more to do with affordability than literacy. That is, while most people understand insurance as an asset protection measure, they lack a nuanced understanding, but this does not preclude them purchasing insurance. The real barrier is affordability, which includes consideration of premium amount, payment method

---

\(^{300}\) Good Shepherd Microfinance, Submission to Senate inquiry into Australia’s general insurance industry, 10 February 2017, p. 3.


\(^{302}\) Good Shepherd Microfinance, *Covering the essentials: Increasing access and affordability of insurance for people on low incomes*, July 2013, p. 9.
and frequency, and priority of expenditure. Insurance cannot be a higher priority than the most basic living expenses.

We invited insurers to share details of insurance policies or initiatives they have implemented or considered to help improve the affordability and/or accessibility of insurance to lower income households and Indigenous households. Insurers’ responses are discussed below. We note that we approached insurers about their initiatives in 2019, prior to COVID-19 which we acknowledge saw many insurers implement temporary assistance measures to support households experiencing premium payment difficulties. We discuss this in chapter 15.

We acknowledge the vital role of the community sector in educating and partnering with industry to develop some of these initiatives. In particular we acknowledge the work of Good Shepherd Australia New Zealand to increase awareness of, and access to, basic general insurance products as part of its wider remit to improve financial inclusion in Australia.

**Policies and initiatives developed by insurers to improve the affordability and/or accessibility of insurance**

Several insurers advised us that they do not explicitly undertake any initiatives or offer any policies designed to improve affordability and accessibility of insurance for lower income and Indigenous consumers. Regardless of whether they had initiatives directly designed to support greater affordability or accessibility, most pointed to general options available to customers that allowed them scope to tailor home and contents products to adjust cost. For example:

- different levels of cover
- optional inclusions and exclusions
- options with regard to the level of excess selected
- paying an annual premium in instalments.

Suncorp and IAG, however, both provided further information about a range of policies and initiatives they have each considered to make insurance more accessible and/or affordable to lower income households.

**Essentials by AAI**

AAI Limited (which this report refers to as Suncorp) and Good Shepherd came together in 2014 to try to address non-insurance for households on low incomes. This program was known as ‘Good Insurance’. Over the following two years, Essentials by AAI was created in consultation with customer representatives and stakeholders.303

Essentials by AAI offers contents and car insurance policies, with simplified levels of cover. Customers are able to choose either $10,000 or $20,000 of contents cover for key items, and up to $3,000 or $5,000 of coverage for their car. It is available to people with a Health Care Card, receiving Centrelink payments or with household income under $48,000.

The use of trusted networks, including the Good Shepherd network, to promote the product rather than more traditional approaches such as advertising, was adopted to help reduce some of the distrust that these community members may have with insurers, generally. It also allows financial counsellors and other service providers to have a broader financial conversation with customers.

Other features of Essentials by AAI include:

- no standard excess for the first two claims and reduced excess levels for other types of claims
- the removal of many traditional underwriting restrictions such as criminal, claim and insurance history
- affordable premiums

- the choice of fortnightly, monthly or annual payments at no extra cost
- the option to make payments via Centrepay
- temporary accommodation costs built into contents insurance
- easy to understand PDS and a video animation, with both available online
- no reliance by Suncorp on breach of the duty of disclosure to cancel a policy or deny a claim
- dedicated call centres (who can provide general financial product advice) and a fast claims service.

Suncorp advised us that, in 2019, it had more than 3,500 customers (nationally) with Essentials by AAI insurance policies and of those customers, more than 70% pay their premiums fortnightly.

Language barriers have been addressed with the Essentials by AAI brochure and animation videos now available in Hindi, Farsi, Arabic and Mandarin. Suncorp also offers interpreter services and has created an insurance toolkit for organisations who provide education and support services for newly arrived Australians. Suncorp continues to partner with Good Shepherd on a range of initiatives, including to improve the awareness in low income communities and Indigenous communities of the availability of Essentials by AAI.

### Insurance 4 That

Developed by IAG in conjunction with Good Shepherd, Insurance 4 That allows policyholders to insure selected items, including computers, appliances and furniture.

The initiative, launched in 2015, is aimed at individuals who are budget conscious, including students, young professionals, first-time renters, retirees and pensioners.

Insurance 4 That is available across northern Australia, however IAG advised that take up remains low, with northern Australia accounting for about 1.5% of all Insurance 4 That policies sold in 2018-19.

### Small Strata

In 2015, AAI released new strata insurance products into the market via the Suncorp and AAMI brands. The product is designed to provide cover for small residential strata titled properties, community titled properties or residential properties associated with a body corporate or owner’s corporation (up to 10 units or $5 million sum insured). As smaller strata properties carry a simpler risk profile than larger buildings, the product can be sold directly from Suncorp call centres and online without intermediary services. The direct channels make the product approximately 20% cheaper than competitors. In its initial submission to our inquiry in 2018, Suncorp advised that, around 3,500 Suncorp strata insurance policies had been sold since its launch covering approximately 10,000 individual units.

### InsureLite

InsureLite was a trial product launched by IAG in 2015 and positioned as an affordable home building insurance product. It offered home insurance for damage caused by significant events and only when a minimum damage threshold is reached. In the event of a total loss, the policy provided a new home up to the value pre-selected by the customer of either $150,000 or $200,000 or a cash payment up to the same amount. InsureLite’s PDS was 10 pages long, which suggests it is possible to achieve simpler policy documents.

InsureLite was discontinued at the end of the trial in 2017. IAG explained there were a number of reasons for this, including that the system InsureLite was built on could not be scaled and a significant investment would have been required for integration into broader IAG systems. Importantly, IAG also found the product didn’t target the needs of the different affordability issues, such as peril compared with socio economic pressures. The product did, however usefully enable IAG to test several unique features that helped reduce premiums compared with traditional home building insurance. IAG advised it will take these learnings into future product development.
IAG’s research on risk exposure and insurance coverage in Australia’s Indigenous communities

In 2015, IAG commissioned a national research project to help it better understand the insurance needs of Indigenous people and the barriers they face when it comes to insurance. It led to the report, *Protecting our First Australians: risk exposure and insurance coverage in Australia’s Indigenous communities.*

The research was informed by focus groups with Indigenous communities in far north Queensland, Western Sydney, Shepparton (Victoria) and Perth on the topic of risk and insurance, and an online survey of 400 Indigenous people. Among other findings, the research showed only 41% of Indigenous Australians had home insurance and only 46% had contents insurance.

Affordability was a key theme. Half of participants said cost was their biggest barrier to buying insurance. Education on the benefits of insurance was an issue too, with nearly 30% saying they didn’t know enough about it. Findings also highlighted the community resilience and connection of some of the Indigenous communities involved in the research; how people look out for each other and where they go for help during an emergency.

---

13. The impact of building specifications on premium pricing

Key points

- The materials and manner of construction of a building can have a significant influence on the likelihood and magnitude of damage from natural catastrophes. This, in turn, affects the expected cost of claims for a property and the premium paid to insure it.

- Current regulatory settings are not driving the development of more resilient buildings in higher risk areas. An expanded remit for the Australian Building Codes Board is required, to enable them to directly consider property protection when developing building standards.

- Improved building standards can improve the long-term resilience of Australia’s housing stock, but can also increase building costs, at least in the short term. Stakeholders recognise that some upfront investment is needed to manage the long-run risks associated with natural hazards. New design approaches which may initially be more expensive are likely to decrease in cost as they become more common.

- Even improved mandatory building standards will not represent ‘best practice’ in property resilience, as they must take other considerations, including the cost of building, into account.

- Consumers who want to build highly resilient homes, or retrofit an existing home, will need to go beyond what is required in the building standards. Governments provide some high level guidance, however there is little practical guidance on the materials and construction approaches that could be used in specific instances.

- The insurance industry has clear insights into the effectiveness of various construction measures and should work with Standards Australia to develop voluntary standards related to the development of new homes that are highly resilient to natural hazards, and in relation to retrofitting and mitigation measures to improve the resilience of existing buildings.

- For people building or renovating a home, there is little information on how the design choices can influence their property’s risk and therefore its future insurance premiums. Providing relevant information at the appropriate time will provide useful guidance to those interested in building more resilient properties, and prompt other consumers to consider resilience measures for the first time.

- Improving the resilience of properties is a worthwhile goal, but to really drive these improvements, the lower risks need to be recognised by insurers and factored into premiums. Insurers generally don’t consider enhanced building resilience characteristics when setting premiums except for limited specific circumstances which vary by insurer. Currently, the year of construction is a highly influential factor on premium pricing, and is used as a proxy by insurers for the standards to which a building was constructed.

- Obtaining reliable building specification data is problematic for insurers. They do not want to complicate or lengthen quoting processes. They need to have confidence that resilient design features are in place in order to offer a lower premium. A building resilience register comprising key building characteristics features is a measure that could be considered further by governments.

- The insurance industry has an important role to play in providing data and expertise to support the development, promotion and recognition of more resilient buildings.

This chapter considers the impact that building specifications can have on insurance premiums through their impact on construction costs and sum insured values, and the role of building characteristics in premium component pricing more generally. We discuss how changes to building standards can influence premium affordability in the immediate and longer term, and look towards broader
reforms that can further facilitate the development of more resilient buildings and also take insurance considerations into account.\textsuperscript{305}

We outline measures which governments, industry and individuals can take to improve the overall level of resilience in the built environment, particularly in new housing stock. Importantly, we make new recommendations designed to reduce underlying natural hazard risks, and help Australian consumers to improve building resilience and have this recognised by insurers.

13.1 Background

During our consideration of measures to improve affordability and availability (considered in chapter 8), and informed by our work on mitigation (reported in chapter 21), we came to the conclusion that the current building standard objectives were not driving improvements that would increase buildings’ resistance to natural disasters common in northern Australia and other parts of the country. In particular, we found that reducing the likelihood and severity of damage to buildings, including their interiors and contents (which we refer to in this chapter as ‘property protection’) had the potential to reduce insurer costs, and premiums, over time. We have also found that one impediment to action on building standards is the uncertainty about the potential effects on insurance premiums of alternative design options.

We committed to further examining how insurers factor in building characteristics and specifications into their premiums as part of this focus area.

Focus area 6

Examining the impact of building specifications on premium pricing

We will further examine how insurers currently factor in building characteristics and specifications into their premiums.

This will help us better understand the potential benefits to insurance premiums of building specifications that go beyond the minimum statutory standards to include greater property protection and resistance to natural catastrophes common in northern Australia.

This chapter builds on issues identified throughout the inquiry relating to the importance of strong building standards and mitigation measures, and how this affects current and future insurance affordability. Building for resilience is a complex but essential consideration for governments, industry, and individuals, especially for communities in the higher risk areas of northern Australia.

Throughout the inquiry, we have witnessed the economic and social toll natural catastrophes have had on communities in northern Australia. Extreme weather events such as Cyclone Debbie in 2017 and the Townsville floods in 2019 have demonstrated the cascading impacts which affect communities and their ability to bounce back.

We recognise that residential homes and strata complexes will never be completely protected against cyclone, flood or other natural hazards. However mitigation and adaptation measures can improve an individual property’s resilience to extreme weather conditions.

The reform of building regulation has delivered positive developments in recent decades, providing certainty and efficiency to the building industry, as well as benefits to the broader community.\textsuperscript{306} This is particularly evident in the improvements required that ensure the structural rigidity of properties

\textsuperscript{305} Throughout this chapter, we have used ‘building standards’ to refer to the national standards that are set by the Australia Building Codes Board through the National Construction Code, as well as the referenced Australian standards which are developed by Standards Australia. We will refer to the National Construction Code and/or Building Code of Australia where we are making statements or consider specifics related to either of these pieces of regulation.

\textsuperscript{306} Productivity Commission Research Report, Reform of Building Regulation, November 2004, overview xxi.
during cyclones, where the focus has primarily been on life preservation.\textsuperscript{307} The protection of property against damage from extreme weather is not a primary concern. Current standards could do more to incorporate the effects of a changing climate, and property protection for the exterior, interior and contents for the expected life cycle of a property.

The Actuaries Institute characterises this issue well, noting that while the framework for building regulation ‘was appropriate when the standards were developed, this may be below current community expectations of what is appropriate, especially when the high cost of natural disasters (including uninsured losses as well as intangible losses) are considered’.\textsuperscript{308}

Weather events that do not affect the structural integrity of a home can still cause costly damage to a building’s contents and interior, which can have a significant impact on insurer costs and premiums. We have seen evidence that more needs to be done to address issues relating to property resilience and protection on issues such as water ingress. As a result of this, we made a recommendation that the Australian Building Codes Board (ABCB) expressly consider measures that better protect the interiors and contents of residential buildings from damage caused by natural hazard risk. This recommendation is set out in chapter 21.\textsuperscript{309}

In response to our recommendation, the ABCB Office advised that measures to better protect the interiors and contents of residential buildings from damage caused by natural hazards sit outside the remit of the ABCB’s objectives.\textsuperscript{310,311}

We discuss the ABCB’s objectives in detail in section 13.3.

**Our approach**

In order to understand how building specifications that go beyond the minimum statutory standards could affect premiums, we have obtained indicative quotes data from insurers detailing retail premiums, and associated flood and cyclone premium components for properties with various features across northern Australia.

Therefore, our key objectives were to consider:

- how building specifications are factored into premium pricing
- to what extent the regulatory framework takes into account potential impacts on insurance premiums
- to what extent the insurance industry engages in the development of building standards
- how the regulatory settings encourage or discourage the construction of stronger and more resilient properties
- how enhanced building standards could impact the rebuild costs insurers face
- what could be done to improve consumer awareness of the impact of building specification choices on insurance costs in the long term.

We have taken into account views provided to us by stakeholders, but are also mindful to take into consideration views put forward to concurrently run inquires which have similar or overlapping terms of reference, such as the CSIRO’s report on practical climate and disaster resilience measures and the Royal Commission into National Natural Disaster Arrangements.


\textsuperscript{308} Actuaries Institute, Submission to the Royal Commission into National Natural Disaster Arrangements, 16 April 2020, p. 4, \url{https://www.actuaries.asn.au/Library/Submissions/2020/NaturalDisasters.pdf}, viewed 29 October 2020.

\textsuperscript{309} See chapter 21—Mitigation, Recommendation 21.4—Building code changes to better protect interiors.

\textsuperscript{310} The ABCB Office resides within the Australian Government, Department of Industry, Science, Energy and Resources. Its primary role is to implement the ABCB’s decisions in accordance with the Inter-Government Agreement. The ABCB Office provide support to the ABCB and its ongoing work program.

\textsuperscript{311} Australian Building Codes Board letter to the ACCC, dated 27 September 2019.
Most importantly, we make four new recommendations which we consider will strengthen the resilience of buildings in higher risk areas, provide developers and consumers with objective standards which they can aim for to build for resilience, increase consumer awareness of the insurance implications of new design choices and allow for better recognition of building resilience by insurers.

13.2 The impact of building characteristics on insurance

The characteristics of a building can greatly influence the expected level of damage that the building will incur in the event of a natural catastrophe, as well as the cost to repair or rebuild the building following any such event and therefore how insurers price these risks. We explore this dynamic using data and information obtained from insurers as well as from third parties which supply products to the insurance industry.

How building characteristics impact premium pricing

A building’s characteristics are unique to the property, with each plot of land and building different to all others. In recent years, insurers’ capacity to take into account more detailed information about a property has significantly improved and as a result pricing has also become more granular.

Rating factors

To understand how building characteristics impact premium pricing, we obtained information from insurers about which factors are used by their risk and pricing models to examine their impact on premium pricing. Insurers provided a comprehensive list of the rating factors used in their models to price home insurance across Australia. The factors relating to building characteristics are summarised below, although other rating factors were also used.

Almost all insurer brands had rating factors based on roofing material, wall material, and year of construction. These were the three most common factors relating to building characteristics used for pricing purposes. The next most common factor related to the ‘type’ of house, for example whether the house was a duplex, townhouse, detached house, or some other type.

There were also a number of less common factors which some insurers used to price insurance. Some of these factors can be broadly categorised as the presence of known features that increase risk, with two insurers having factors for the amount of cladding on a strata structure, and one having a factor for the presence of asbestos. Two insurers included home elevation above the ground as a factor.

Related to enhanced design features which could limit risk, three insurers indicated they consider individual circumstances where a customer has made significant improvements to reduce the risk profile of their property. One insurer indicated they would review its pricing of a property’s flood premium in specific circumstances, but not any other enhanced design feature. Four insurers stated that they do not consider information on enhanced design features when setting premiums, although one is considering a mechanism to do so. Beyond these are specific rating factors used to quantify the level of mitigation discounts provided to customers that have undertaken works as part of the Queensland Household Resilience Program, and under both the Suncorp’s Cyclone Resilience Benefit and RACQ’s cyclone mitigation discount.

Based on the information available about insurer rating factors, we focus below on the influence of the three key factors: year of construction, roofing material, and wall material.

Analysis of quotes

Insurers provided a range of quotes for 11 properties with a combination of characteristics including five different roofing materials, four different wall construction materials, and three different years of construction. The 11 properties were geographically dispersed across northern Australia, along with Goulburn in New South Wales, in order to capture the various risk characteristics of different areas. The rating factors and property locations used are set out in table 13.1.
Table 13.1: Rating factors and locations for quotes collected

<table>
<thead>
<tr>
<th>Locations</th>
<th>Roof materials</th>
<th>Wall materials</th>
<th>Construction years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Queensland:</td>
<td>Aluminium/zinc/iron</td>
<td>Brick veneer</td>
<td>1970</td>
</tr>
<tr>
<td>Northern Territory:</td>
<td>Colorbond</td>
<td>Double brick</td>
<td>1990</td>
</tr>
<tr>
<td>Western Australia:</td>
<td>Fibro</td>
<td>Fibro</td>
<td>2010</td>
</tr>
<tr>
<td>New South Wales:</td>
<td>Slate</td>
<td>Weatherboard</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Terracotta/clay</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

We found that of the three key rating factors, construction year was the most significant factor that impacted on the premiums quoted. For all combinations of wall and roofing material, we observed that properties built in 1990 had substantially lower premiums than those built in 1970, and properties built in 2010 had substantially lower premiums than those built in 1990.

When considering the wall construction material, we found that brick veneer and double brick properties were 9 to 17% cheaper than fibro and weatherboard properties, across all construction years. There was no substantial difference in the comparison when comparing older properties to new properties, the brick veneer and double brick properties have lower premiums by a similar amount in percentage terms. Similarly, we observed these relative differences across different locations throughout northern Australia.

Brick veneer properties usually had the lowest quoted premium levels, but this was not consistent for all insurers. Some insurers quoted double brick properties as having the lowest premiums for some properties. Overall premiums for the two materials were quite similar.

Figure 13.1 shows the impact of different wall materials on the average quoted premium for a 1990 home with a Colorbond roof, broken down into premium components.

Figure 13.1: Average home building insurance premium quoted by wall construction material, broken into risk components, $2019–20

Source: ACCC analysis of data obtained from insurers.
Wall material had more of an impact than roof material, and this was consistent across insurers. We observed that roofing materials had the smallest impact on quoted premiums of the factors considered, with the least variance between quotes for the different materials. Fibro roofs were quoted as the most expensive roof type across the three construction years, with the other four roofing categories returning similar quotes. Slate roofing had the lowest quoted premiums in each category, but the difference was negligible.

Figure 13.2 shows the average quoted premium for a home with brick veneer walls and a Colorbond roof for the three different years of construction considered. The premium differences observed between years of construction is primarily because of differences in cyclone components of premiums. The average cyclone component for a property built in 1970 was $798 higher than for a 1990 property and $1,193 higher than for a 2010 property. These differences are driven by the enhanced building standards of modern properties compared to older ones, but also reflect that newer properties will generally be in better condition than an older property. We also note there were also notable savings in the non-flood or cyclone risk component of the premium for newer properties.

Figure 13.2: Average home building insurance premium quoted by year of construction, broken into risk components, $2019–20

Source: ACCC analysis of data obtained from insurers.

Depending on the wall and roofing materials, 60 to 70% of the difference in premium between newer and older properties was due to a decrease in the cyclone risk component of the premium, with the cyclone risk premium roughly halving for properties built in 2010 compared to 1970. This premium difference is also apparent for properties built in 1990 compared to 1970, with cyclone risk premiums reducing by 36%. We consider this is a reflection of the improving nature of building standards over time. Relevantly, these findings suggest there are large potential premium reductions available for older properties retrofitted to meet current building standards, and this is particularly apparent for older properties (1970 in our sample). The savings available for properties built more recently (1990 in our sample) are less, but still substantial.

The flood risk component of the quoted premium was not affected as substantially as the cyclone component for different property characteristics, indicating that insurers believe that location is the primary factor for flood risk and that this is not able to be as strongly mitigated by an individual property’s characteristics. Brick veneer and double brick properties had the lowest flood risk premiums, up to 19% lower than a fibro or weatherboard property. In contrast to cyclone risk premium, construction material was a more influential feature than construction year, with only up to a 6% difference in flood risk premiums for properties with the same construction materials but different construction year. The roofing material had no impact on the flood risk component of premiums.
We also considered whether competition could be observed between insurers and locations using the quotes data obtained, and how this might vary for the same properties with varying building characteristics.

The range in premiums across different insurers for a property with the same characteristics in the same location was substantial. For example, figure 13.3 below shows the median premiums for each insurer’s brands for a 2010 brick veneer, Colorbond roof property in Currajong, a suburb of Townsville.

Figure 13.3: Median home building insurance premium quoted for a Currajong Queensland property broken into risk components, by insurer, $2019–20

![Median premium chart]

Source: ACCC analysis of data obtained from insurers.

The example property shown in figure 13.3 is showing a large premium range of $2,500 for a modern property. The range for a 1970 property at the same address with the same building materials was even more substantial, with quotes ranging between $2,900 and $6,700.

It was also clear that insurers weren’t consistently cheaper than other insurers, even for largely similar properties. For example, figure 13.4 below shows the median premiums for each insurer’s brands for a property in Beaconsfield (a suburb of Mackay) with a Colorbond roof and brick veneer walls, for each construction year, for the five insurers who returned a quote for this property.
Figure 13.4: Median home building insurance premium quoted for a Beaconsfield Queensland property by year of construction, by insurer, $2019–20

Source: ACCC analysis of data obtained from insurers.

Insurer 2 offered the highest quote for this property with a 1970 construction year, but the lowest for a 1990 construction year. Insurer 3 had the lowest premium for the 2010 construction year, but was priced in the middle for the 1970 and 1990 construction years. This shows that insurer models are very different and place different emphasis on the pricing factors, indicating that there are potentially substantial savings available for customers that are willing to switch insurers, regardless of the age of the property.

Similar variability in quotes was observed for other combinations of wall and roof types.

**Changes in building standards will influence insurance premiums in different ways**

Changes in building standards to improve resilience could result in higher construction costs in the short term, although these increases will not necessarily be significant. However, as the building and construction industry adjusts their supply chains and construction processes to the changes, these costs should decrease over time.

While updated building standards could reduce the risk and severity of damage for new buildings, any resulting higher construction costs will increase the cost for insurers of repairing or rebuilding existing properties following a claim. It is not clear to us how quickly this increase in claims costs filters into how insurers determine premiums. Chapter 4 details how insurers set their premiums and notes that insurers generally use historic claims costs to inform their forecasts.

We explicitly asked insurers to explain how building standard changes are considered. Three insurers stated that they have no formal process for considering building standards changes. Two other insurers stated that changes to building standards will only be reflected once there is evidence of reduced risk through the claims data. Collectively, the above five insurers indicated that they rely on claims data over time as their primary way of assessing building standard changes. Another three insurers stated that where there is strong evidence of reduced risk prior to observing this in claims data this may be reflected in updates to their models and reduced premiums.

---

312 Note that insurers 1 to 5 are not numbered in the same order as insurers 1 to 6 in figure 13.3.
Analysis of policy data and premiums

Figure 13.5 shows the distribution of property construction years in the case study areas for insured properties in 2018–19.313

Figure 13.5: Number of insured properties in case study areas by building construction year, 2018–19

![Figure 13.5](image)

Source: ACCC analysis of data obtained from insurers.

Note: This chart uses data accurate as of 30 June 2019, so the lower number of properties with a construction year between 2010–2020 isn’t necessarily representative of a decrease in the number of new buildings.

Figure 13.5 shows that there are a substantial number of insured properties that were built prior to the increase in building standards in the 1980s, with 34% of properties built prior to 1980. This is broadly similar across each case study area except Alice Springs and Port Hedland which had a higher proportion of properties built from 1970 to 1990 and a lower proportion of more modern properties.

Insurers generally use the year of construction as a proxy for the building standards that a property was constructed to. Figure 13.6 shows the average premium for properties located in the case study regions in 2018–19 by the year of construction.

Figure 13.6: Average premium for home insurance products in northern Australian case study areas by building construction year, 2018–19, $2018–19

![Figure 13.6](image)

Source: ACCC analysis of data obtained from insurers.

313 Case study areas refers to the subregions of northern Australia that are explored in greater detail in chapter 9.
Figure 13.6 shows that the average premium for homes built in 1970–1980 were 18% higher than the average for homes built in 2010–2020. Properties developed before 1970 have even higher premiums. Lower average premiums coincide with more modern building standards, although other factors will also be relevant, in particular the size and quality of housing stock built in different periods (which are reflected in the sum insured of a property).

Figure 13.7 shows the same case study regions data as figure 13.4, but has been adjusted for premium per $1,000 sum insured levels. Generally sum insured levels are lowest for mid-century properties, and highest for new and turn of the 20th century properties.

Figure 13.7: Average premium per $1,000 sum insured for home insurance products in northern Australian case study areas by building construction year, 2018–19, $2018–19

Source: ACCC analysis of data obtained from insurers.

Figure 13.7 shows that after adjusting for sum insured, modern properties still have the lowest premiums, and the difference between pre and post 1980 properties is even more pronounced. In general, modern properties despite having a higher sum insured, have a lower premium than older properties. This indicates that insurers regard properties built to more modern building standards as having lower expected claims and other costs. Early and pre-1900 properties have slightly lower premium per sum insured levels than mid-century properties, and this could be partially due to the high standard of build initially with necessary mitigation measures installed over time, or simply because the property is located away from the worst flood and/or cyclone risk areas.

Construction/rebuild cost and sums insured

Figure 13.8 below shows the average estimated cost of rebuilding a home around Australia. In addition to showing high cost regions of northern Australia, figure 13.8 also shows some high rebuilding cost areas outside of northern Australia, such as southwest Queensland. These areas are predominantly rural or regional areas that would also be subject to higher material transportation costs and/or labour supply constraints.
Online rebuild cost calculators provide a method for home owners to obtain an estimate of the likely costs involved to rebuild their home. They provide an indication of the sum insured value which should be selected for home (building) insurance policies. To comply with the General Insurance Code of Practice 2020, all insurers are required to provide access to a calculator to enable consumers to estimate the sum insured value of their home.\textsuperscript{314}

The eight main insurers operating in northern Australia refer customers to the Cordell Sum Sure building cost calculator provided by CoreLogic, or use quoting engines that integrate aspects of this calculator.

Calculators can only produce estimates based on the data available and end user input. Estimates may differ depending on the number of questions asked, however a comprehensive approach is likely to provide a more accurate cost estimate.

Changes to the building standards should almost immediately be factored into sum insured estimates as these reflect the expected rebuild cost in a total loss situation. Previous improvements to building standards have generally resulted in increased rebuild costs, at least in the short term to account for additional materials and a more resilient design, to be compliant with the updated standards.

\subsection{Building standards in Australia}

Building standards in Australia are an important tool used by governments to require a minimum level of health and safety from residential homes and strata buildings. In 2019–20, approximately 173,300 new homes were built in Australia\textsuperscript{315}, which is equivalent to approximately 2\% of the total housing stock. Building standards are under constant review, and often described as ‘living documents’.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{average_rebuild_costs.png}
\caption{Average estimated home rebuild costs by postcode, nominal $2017}
\end{figure}

\begin{flushleft}
\end{flushleft}

\begin{flushleft}
Online rebuild cost calculators provide a method for home owners to obtain an estimate of the likely costs involved to rebuild their home. They provide an indication of the sum insured value which should be selected for home (building) insurance policies. To comply with the General Insurance Code of Practice 2020, all insurers are required to provide access to a calculator to enable consumers to estimate the sum insured value of their home.\textsuperscript{314}
\end{flushleft}

\begin{flushleft}
The eight main insurers operating in northern Australia refer customers to the Cordell Sum Sure building cost calculator provided by CoreLogic, or use quoting engines that integrate aspects of this calculator.
\end{flushleft}

\begin{flushleft}
Calculators can only produce estimates based on the data available and end user input. Estimates may differ depending on the number of questions asked, however a comprehensive approach is likely to provide a more accurate cost estimate.
\end{flushleft}

\begin{flushleft}
Changes to the building standards should almost immediately be factored into sum insured estimates as these reflect the expected rebuild cost in a total loss situation. Previous improvements to building standards have generally resulted in increased rebuild costs, at least in the short term to account for additional materials and a more resilient design, to be compliant with the updated standards.
\end{flushleft}

\begin{flushleft}
\subsection{Building standards in Australia}

Building standards in Australia are an important tool used by governments to require a minimum level of health and safety from residential homes and strata buildings. In 2019–20, approximately 173,300 new homes were built in Australia\textsuperscript{315}, which is equivalent to approximately 2\% of the total housing stock. Building standards are under constant review, and often described as ‘living documents’.


which are updated to ensure adequate levels of health and safety are maintained for the community, taking into account the changing needs of the economy and community expectations.

This is particularly important in northern Australia as developing for building resilience ensures the long term sustainability of properties in higher natural hazard risk areas.

**The framework for building standards**

Australia’s framework for regulating building standards is complex with responsibility shared between different levels of governments and various specialist bodies.

Our focus is primarily on the setting, development and maintenance of building standards, and we therefore consider the processes undertaken by the Australian Building Codes Board (ABCB) and Standards Australia. We do not detail how these building standards are enforced at the local level, for example how building approvals are conducted. This matter has been the focus of the Building Confidence Report which provided observations on the compliance and enforcement systems for the building and construction industry, and included recommendations for a national best practice model to strengthen the effective implementation of the National Construction Code.316

**Australian Building Codes Board and the National Construction Code**

The ABCB is a joint initiative of all levels of government in Australia, established through an intergovernmental agreement to coordinate building reform work.

The Building Ministers’ Forum, which comprises Australian Government, State and Territory Ministers with responsibility for building and construction industries, set the strategic policy direction for the ABCB, taking account of any Council of Australian Governments agreements, societal needs and expectations.318

The ABCB has government and industry representation, and is the standards writing body that is responsible for the development of the National Construction Code (NCC).

The NCC is comprised of the two volumes of Building Code of Australia (BCA) and the Plumbing Code of Australia.319 The BCA is a performance based code that was introduced in 1996. The NCC also refers to Australian Standards and other reference documents as necessary. It sets the minimum mandatory level of expectations which a building must meet. The parties to the ABCB Intergovernmental Agreement have agreed that the NCC will set the minimum necessary requirements for building and construction throughout Australia, and that local governments will be discouraged from setting prescriptive standards that override the performance requirements in the NCC.320

**ABCB objectives**

Earlier in our inquiry, we made a recommendation that building code changes should better protect interiors and contents,321 in order to encourage change and drive improvements for building for resilience.

---

317 On 29 May 2020, the Prime Minister announced that the Council of Australian Government (COAG) will cease and a new National Federation Reform Council (NFRC) will be formed, with National Cabinet at the centre of the NFRC. The Building Ministers’ Forum Charter was published in December 2019 and has not been updated since the disbandment of COAG.
321 This was made as Recommendation 15 but has been renumbered as recommendation 21.4: Building code changes to better protect interiors and contents. The Australian Building Codes Board should expressly consider measures that better protect the interiors and contents of residential buildings from damage caused by natural hazard risk (such as, wind-driven water ingress around doors and windows during and following storms. When assessing the costs and benefits of potential code amendments, the ABCB should also consider the potential longer term impacts on insurance premiums.
The ABCB Office provided a response stating that the primary purpose of the ABCB is to set minimum standards through the NCC that are proportional and cost effective for occupant health and safety within buildings, not property protection. Further it noted that while property protection has been a consequential benefit of other measures that have been included in the NCC, the recommendation was outside its remit.

Proposals to change and develop new performance requirements for the NCC must meet the objectives of the ABCB and be consistent with the Council of Australian Governments (COAG) best practice regulation guidelines.

The ABCB’s current objectives are set out in the Intergovernmental Agreement and centre on the development and maintenance of codes and standards that address issues relating to the design, construction, performance and liveability of building and construction, and that are the minimum necessary to efficiently achieve:

- safety and health,
- amenity and accessibility
- sustainability.322

In determining any changes to the NCC, the ABCB ensures that the proposals are effective and proportional to the issues being addressed such that the NCC will generate net benefits to society. Additionally, changes involve consideration of the competitive effects of the NCC, and are to be no more restrictive than necessary in the public interest.

**Standards Australia**

Standards Australia is Australia’s peak standards body that facilitates the development of Australian Standards by working with Government, industry and the community.

On their own, Australian Standards are voluntary documents that set out specifications, procedures and guidelines that aim to ensure the design and materials used to build a house focus on safety, consistency and reliability.

Several building related Australian Standards are directly or indirectly referenced in the NCC. Australian Standards are not automatically referenced in the NCC, and require consideration against the protocol for referenced documents to ensure standards are proportionate and robust, and do not confer a competitive advantage to anyone.323 Once a standard is referenced in the NCC, it is considered a de-facto regulatory instrument, and is used in a regulatory sense as a mandatory rather than voluntary standard.

Each standard has a technical committee comprised of nominated stakeholders (such as industry, consumer associations, government, scientific or academic institutions) which are brought together by Standards Australia to contribute their expertise to developing standards. Membership of these technical committees are reviewed regularly to ensure the consideration of issues achieves the best outcomes. Importantly, organisations and professionals volunteer their time and expertise to the committee processes. Standards technical committees also work with, and consider other similar standards in international jurisdictions for their relevance and potential application in Australia.

Any member of the public, industry, or government can propose to develop or amend an Australian Standard.

Figure 13.9 below shows how the Australian Building Codes Board and Standards Australia work to develop the NCC.

---


Australian Building Codes Board
- Joint initiative of all levels of government.
- Responsible for the development of the National Construction Code.
- Strategic policy direction set by the Building Ministers Forum.
- ABCB objectives set out in the Intergovernmental Agreement.

To develop and/or amend the code
- Undertake regulation impact analysis, and be consistent with Office of Best Practice Regulation best practice guidelines.
- Must meet the ABCB objectives set out in the Intergovernmental Agreement.

Standards Australia
- Independent not-for-profit organisation and Australia’s peak standards development organisations.
- Proposals to develop and amend Australian Standards undergo regulation impact analysis. All standards should demonstrate ‘net benefit’ case.
- Where an Australian Standard for buildings or construction is ‘called up’ into legislation, the ABCB is consulted during the process.

Source: Australian Building Codes Board and Standards Australia websites.

Development of the building standards over time

The ABCB currently makes necessary amendments to the NCC on a three year cycle, unless an out of session amendment is necessary. Previously, changes to building standards potentially occurred annually. This was adjusted in 2016 to provide the building and construction industry with greater certainty and reduce confusion.

Previous changes made to the building standards to improve building resilience to natural hazard risks have historically followed natural catastrophes. For example, following Cyclone Tracy in 1974, building standards were updated to require higher levels of resilience to cyclones. Improved building standards which were adopted in the Northern Territory by 1977 and introduced in 1982 in Queensland had a significant impact on cyclone resilience.

---

Box 13.1: Natural disaster events that have prompted action

In 1974, Cyclone Tracy caused 65 deaths and hundreds of millions of dollars of damage to 70% of Darwin’s homes (90% in some areas). It prompted regulatory change to improve the construction processes that attach the roof to the house, making houses more resistant to severe wind damage.

Analysis after cyclones Vance (1999), Larry (2006) and Yasi (2011) showed that the updated regulations have resulted in much less building damage and consequent loss of life. During Cyclone Yasi, for example, 12% of older homes suffered severe roof damage, but only 3% of newer homes.

Residents of Innisfail faced the full brunt of Cyclone Larry in 2006 with wind gusts of 240 kilometres an hour. The rebuild brought many damaged houses in the town up to modern, cyclone resilient standards. When Cyclone Yasi crossed the coast with similar wind speeds five years later, claims from Innisfail were half the cost of those nearby towns that did not experience the post-Cyclone Larry rebuild.326

In Western Australia, building standards have required properties to meet a category four cyclone standard since 1974. For example, the Town of Port Hedland and Karratha are located within one of the most severe cyclonic wind regions in Australia. As such, all structures are required to be designed using durable materials (such as concrete, brick, steel and timber framing, and steel sheeting) and certified by a practicing certified structural engineer in accordance with the BCA and Australian Standards.327

During the late 1970s and early 1980s there was generally considered to be a major shift in focus where greater attention was placed on building for resilience against natural hazards for the protection of life. During the 1990s the regulation of building standards achieved national consistency, by removing the inefficiencies of regulating the building and plumbing standards through separate legislative and administrative arrangements.328 A nationally consistent BCA was created in 1992 and the ABCB was established in 1994. The BCA transitioned into a performance-based code in 1996 and was consolidated with the plumbing code to create the NCC in 2011. As of 2015, the NCC is available to the public online at no cost.329

Preference for innovative and flexible approach to building standards

The NCC is a performance-based code containing performance requirements which set a minimum level for the construction of buildings in Australia. Performance requirements can be met using either a ‘performance solution’ or using a ‘deemed to satisfy solution’.330 Historically, compliance was considered against prescriptive ‘deemed to satisfy’ provisions. Under current arrangements, builders have the option to either comply with the ‘deemed to satisfy’ provisions, or develop a ‘performance solution’ which either complies directly with the performance requirements or is shown to be at least equivalent to the ‘deemed to satisfy’ provisions.331

The ABCB has indicated that governments support the flexible approach option as the objective of regulation can be achieved through communicating the desired level of performance without the prescriptive nature of regulation.332

The performance solutions approach is also intended to provide the building and construction industry with the flexibility to develop and design homes using innovative practices and materials, provided the minimum performance requirements are met. However, insurance premium incentives to build

326 Suncorp Insurance, Cyclone Testing Station, Urbis, Build to Last, a Protecting the North Initiative, 2015.
327 City of Karratha, Guidance note for dwellings and alterations & additions, June 2014.
for resilience can be limited and properties are often only built to the minimum standards required by the NCC.

Adapting the national building standards at the state and territory level

The NCC has been adopted by each Australian state and territory through their respective building legislation. While Australia has achieved nationally consistent minimum standards through the NCC, each state and territory retains their own building laws which specify how the NCC is implemented.

In northern Australia, Queensland and Western Australian local governments can choose to impose additional building requirements through council by-laws (or guidelines) to apply within their region. However, in the Northern Territory, the territory government has the primary responsibility for implementing building and planning regulations.

Box 13.2: Queensland Development Code

The Queensland government has determined that various planning and building specific requirements are necessary to ensure building resilience in the region. The Queensland Development Code consolidates the Queensland-specific building standards into a single document. It covers matters that are outside of the scope of, and in addition to, the requirements of the NCC.

It sets out design, setback and siting requirements for Domestic Class 1a (detached dwelling house) and associated Class 10 buildings/structures (garages, carports, sheds, water tanks and pools), except where the planning scheme identifies an alternative setback or siting provision.

One specific example of where the requirements differ from the national standards, includes:

- Construction of buildings in flood hazard areas. This introduces new requirements aimed at ensuring that the structural integrity of residential buildings located in flood hazard areas is maintained during a flood. Other requirements include measures to ensure utilities associated with buildings, such as switchboards are designed or located so as to reduce the negative effects of flood water on the utilities.

The QDC MP 3.5 provides detailed guidance to assist engineers and other professionals with the design process. It also allows local governments to declare additional matters relating to a flood hazard areas, including the defined flood level, maximum flow velocity and the finished floor level required for homes. It will also allow local governments to declare a freeboard of a height of more than 300mm.

Another previous example (which has since been incorporated into the NCC), was related to:

- Construction of buildings in cyclone zones designated as region C, which requires that metal roof cladding, its connections and immediate supporting members are designed to resist wind loads they may be exposed to.

Queensland’s move to extend the national building standards in relation to natural disaster resilience is a reflection of past natural disaster experiences and a strong understanding of the potential disaster risks faced locally.

Current settings for amending building standards

The ABCB, prior to amending the NCC, undertakes a regulation impact analysis process to determine whether government intervention is necessary. The protocol setting out this process has been approved by the Office of Best Practice Regulation and is consistent with COAG regulatory principles.

Box 13.3: ABCB Regulation Impact Analysis Protocol

The ABCB regulation impact analysis protocol outlines the regulatory process undertaken when considering proposals to change the NCC. The COAG regulatory principles require the level of analysis to be commensurate with the potential impact of the proposal. To achieve this, the ABCB has developed a tiered approach, including:

1. Proposal for Change\(^{336}\) (PFC)
   - A PFC can be made by anyone through a submission on the ABCB website. These are considered to be technical proposals which do not include changes which address matters of public policy or for which a direction from government is required before a change is considered. Proposed amendments to the NCC require an impact analysis consistent with COAG principles including, identifying the current problem and undertaking an assessment of the impacts of the proposed changes.

2. Preliminary Impact Analysis (PIA)
   - A PIA can be put forward by any organisation or individual, and it allows for early-stage analysis of proposed changes to the NCC. The ABCB prepared a Good Practice Guide for PIAs which outlines the importance of early-stage analysis and provides detailed guidance about how to undertake the preliminary analysis.\(^{337}\) Where the PIA identifies material impacts, the ABCB consults with the Office of Best Practice Regulation about the appropriateness of a full Regulation Impact Statement.

3. Regulation Impact Statement (RIS)
   - A RIS process provides a comprehensive assessment of the impacts of proposed regulation. It provides a systematic and transparent process for assessing policy approaches to problems by performing a comparative analysis of the impacts of all regulatory and non-regulatory options. The outcome of the RIS process is designed so that the most efficient and effective solution is recommended, and that it provides the greatest net benefit to the community. A RIS is generally only required where there are substantial impacts at a national level.

The guidance material provided for a PIA provides examples of what benefits and costs might be considered under economic and social analysis. We note the impacts of natural catastrophes, and insurance considerations such as affordability and availability are not factors listed. Although likely not intended to be a comprehensive list, it does align with the ABCB’s objectives. For example, the benefits of a reduction in health and safety risks is listed as a consideration that needs to be addressed.

The challenge in assessing costs and benefits was recognised by the then ABCB Chairman in his submission to the Productivity Commission’s Inquiry into Barriers to effective climate change adaptation:

> The ABCB’s commitment through the IGA [Intergovernmental Agreement] to BCA provisions being cost effective may restrict efforts to make buildings more resilient. The costs change to building design is a real cost that can be easily estimated, while the benefits provided would be in terms of probable reductions in damage, injury or loss of life and are often intangible, difficult to estimate and have a long timeframe.\(^{338}\)

Concerns with the current approach to setting building standards

Following discussions with the ABCB Office it was established that it did not consider the effect on insurance premiums when examining changes to the NCC. We note the ABCB Office has indicated that in recent times the Office of Best Practice Regulation has allowed the inclusion of secondary benefits to be considered, which can include the protection of property or changes in insurance premiums.

338 Australian Building Codes Board Chairman submission to the Productivity Commission Inquiry into Regulatory and Policy Barriers to Effective Climate Change Adaptation, June 2012, p. 10.
However, they noted a proposed change to a requirement in the NCC that was centred primarily on the protection of property is still unlikely to be supported or progress to the next stage of consideration under the current objectives as set out in the intergovernmental agreement.

Insurers have highlighted this issue in submissions to previous inquiries. For example, Suncorp noted that changes that would improve resilience, but do not improve safety and health, are likely to fail regulatory impact analysis and are therefore not included in building standards. Suncorp suggested protection against wind driven rain ingress around windows and doors has no effect on safety and health, but would significantly improve outcomes following a tropical cyclone by avoiding consequential damage to furnishings and plasterboard.\(^{339}\)

While a national approach brings significant benefits, there are situations where the building standards may not adequately meet the needs of all communities. For example, bushfire or cyclone prone communities may need special building standards to protect homes from the increased danger posed by these perils. In some circumstances, this has been and can be dealt with in referenced Australian Standards through the creation of regional risk zones. An example of this is the wind loading regions.\(^{340}\)

We recognise that the performance requirements outlined in the NCC are constantly reviewed and have been developed over many years based on the latest information and analysis available. As a result, modern Australian building standards have improved the structural resilience of homes against natural hazards. Older homes constructed to the building standards in place at the time usually sustain higher levels of damage than more modern homes. This has been a secondary benefit of changes to the NCC which usually had the primary purpose of preservation of life, not property protection.

Despite these improvements, stakeholders throughout the inquiry have provided evidence to indicate that more could be done to improve a property’s protection from and resilience to natural hazards. In particular, they suggest changes to the building standards to better address issues such as water ingress and wind driven rain.

An ICA submission suggested the NCC does not require construction beyond a minimum standard that will protect the life of any occupants. This level of performance does not include property protection except to the extent that doing so will achieve a life safety outcome. Ultimately, Australian buildings constructed to the minimum standards will be safe and survivable, but will suffer significant physical damage.\(^{341}\)

The insurance industry has insights through its detailed post-disaster claims data for homes and strata complexes which could help to identify better materials and better designs. For example, a relevant north Queensland study into water damage from cyclones, initiated by insurers with the Cyclone Testing Station, investigated the drivers of loss from cyclones.\(^{342}\) It relied on insurance claims data for strata properties and homes that were damaged by cyclones, including Cyclone Debbie. It found that damage from wind driven rain ingress was a major factor on losses for events with wind speeds less than design level (the wind speeds the building was designed to withstand). This suggests that window and door compliance with the minimum standard are not adequate to prevent water ingress during cyclonic events. The study recommended the insurance industry and window and door manufacturers work together to promote the importance of having secure weather resistant openings for cyclonic regions.

### Consideration of insurance when setting referenced Australian Standards

Each building and construction industry Australian standard referenced in the NCC is required to undergo a Regulation Impact Statement consultation process (similar to changes proposed for the NCC) as these are referred to, or ‘called up’, by legislation through the NCC.


\(^{341}\) Insurance Council of Australia submission to the NAII first interim report, p. 7.

There are several Australian standards which apply to home buildings, and some of which have region specific standards which must be adhered to such as the wind load ratings in cyclone prone regions in northern Australia and the bushfire attack level ratings.

Consultations with Standards Australia confirmed that insurance factors are not a major consideration in the development of standards. However, it was stated that there is no reason that an amendment proposal or the development of a standard could not take into consideration statistics about insurance damage, claims and/or risk modelling from the insurance industry. It was also suggested that technical committees rely on the information brought to the committee and would not ordinarily seek out data outlining potential effects on insurance costs and benefits, unless there was a specific requirement to do this in the regulatory impact analysis for standards referenced in the NCC.

Engagement from the insurance industry

The development of building standards, and Australian Standards, includes consultations which are open for public comment. The insurance industry has opportunities to contribute towards shaping the building standards landscape and encourage building for resilience.

In consultation with the ABCB Office it was noted that the insurance industry had not put forward any proposals to change the NCC in recent times. Standards Australia also noted a similar experience, stating that insurance industry input was generally limited to participation in relevant technical committees, but not necessarily driving any specific work.

The ICA acknowledged their engagement with the ABCB processes was limited, but noted the primary reason was the lack of engagement by the ABCB in factoring in insurance considerations. The ICA suggested they have had to pursue their objectives and achieve change through other industry lead means. For example, through research tasks with the Cyclone Testing Station at James Cook University, and other initiatives such as the Climate Change Action Committee.

Several insurers indicated they had not had any direct input into the ABCB processes. However, many of them indicated their support for the work of the ICA Climate Change Action Committee in supporting the insurance industry to embed environmental issues and insights into decision making, especially outcomes that achieve greater building resilience.

The ICA Climate Change Action Committee was established to actively address and better recognise the risks of a changing climate. It works closely with the insurance industry, community and all levels of government to consider measures to reduce this risk. The future insurability of properties throughout Australia is a key interest for the committee. They note that short of appropriate mitigation and adaptation measures, and the implementation of stronger building standards and improved land use planning, there is a possibility that some regions in Australia will become uninsurable.

The ICA also noted its current research project with the Cyclone Testing Station and Risk Frontiers to undertake a Residential Vulnerability Assessment for cyclone and flood risks. The project will develop flood and cyclone vulnerability curves for houses constructed after the year 2000. Some insurers have indicated they are providing data directly to the project team to assist with the assessment. The intended outcome of the project is to form a quantitative understanding of the vulnerability of modern residential housing construction through analysis of past events. This is expected to inform future risk management decisions, including future mitigating actions that may reduce cyclone and flood risk.

The ICA has called for the insurance industry to be represented on the ABCB in order to represent residual building and hazard risk which is permitted by the National Construction Code and passed onto homeowners. This residual building and hazard risk forms a significant component of insurance premium pricing.


344 Insurance Council of Australia submission to the NAII second interim report, p. 7.

Insurers also provided information on their engagement with the processes to develop Australian Standards. Some insurers indicated their involvement on working groups to revise the national wind loading standards as well as drafting of the recent revisions to the wind loads for housing standards.

Suncorp’s submission notes industry led research has already directly led to revisions for Australian Standards around minimum fixing requirements for flashings and roof attachments to reduce water entry from wind-driven rain. Suncorp further noted that there is also a clear opportunity for government to work with the insurance, design, construction, and manufacturing industries, to promote the importance of secure cyclone-resistant measures in preventing water entry.

**Regulatory reform agenda**

The ABCB is required by the Intergovernmental Agreement to develop an annual business plan to inform the public of its operations. The ABCB has a standing item on its forward work agenda to consider the adequacy of the current NCC earthquake and extreme wind provisions, and notes that natural disasters are monitored to determine whether current NCC provisions are appropriate. However, any such review would be done with a focus on minimum and proportional requirements for occupant health and safety, not property protection.

The ABCB Office suggested the processes it uses to develop natural hazard performance requirements are looking to explore a more pro-active approach for building standards that look to incorporate the possible impacts of climate change on the future extremes that buildings may need to withstand. The ABCB Office is undertaking work with three other countries (Canada, New Zealand, and the United States) to look at predictive modelling regarding climate change, in order to be more prepared. The ABCB Office noted that it can be difficult to set building standards necessary both for today and for the future, whilst still having regard for the Intergovernmental Agreement and the Office of Best Practice Regulation good practice guide.

**Changing how building standards are set to facilitate more resilient buildings**

**Stakeholder views**

In recent years, the Australian Government has placed a greater focus on disaster preparedness in order to minimise the funding required for disaster recovery. For example, the Prime Minister requested the CSIRO develop immediate and longer-term plans and recommendations for building Australia’s climate and disaster resilience.

APRA has noted that climate change can be expected to amplify the underlying issues through both increased uncertainty in areas which have historically experienced disaster events, and in exposing previously unaffected regions where building standards and land use planning do not adequately protect against the risks.

The Actuaries Institute also considers the ABCB remit should explicitly include consideration of proportionate and cost-effective protection of property over its expected lifetime, and to take account of likely future conditions and stresses those structures should be able to withstand over that time.

The Cyclone Testing Station at the James Cook University suggested in discussions that many of the building standards did not take into consideration the building’s continued function or quick return to functionality following an extreme weather event (i.e. reduced response and recovery phase) which can promote greater community resilience.

The Counsel Assisting the Royal Commission also proposed that the NCC be amended to specifically include, as an objective, making buildings more resilient to natural hazards. This received widespread

---

346 Suncorp submission to the NAII first interim report, p. 13.
348 APRA submission to the NAII first interim report, p. 3.
support from stakeholders. The Royal Commission’s final recommendation on this matter was that the ABCB, working with other bodies as appropriate, should evaluate whether the NCC should be amended to specifically include, as an objective of the code, making buildings more resilient to natural hazards.

The recommendation was made noting that building more resilient houses comes at a cost and changes to building standards may add to construction costs. Where the NCC can be expanded in a proven, cost-effective way to improve the ability of a structure to withstand damage and destruction of property from natural hazards, it should be. Additionally, it was noted that while protecting life should be the top priority, loss of and damage to property caused by natural disasters inflicts a heavy burden on individuals and communities.

The Australian Government indicated that it supports in principle this recommendation and would welcome the opportunity to work with the states and territories to implement it.

We asked insurers to describe any amendments to the NCC (including the performance-based BCA and referenced Australian Standards) that if made would materially improve the resilience of properties in northern Australia. We also took into consideration other stakeholder views on this issue expressed throughout the course of our inquiry.

The ICA and some insurers identified that change needs to begin with the framework for considering building standards. For example, the ICA submitted that the intergovernmental agreement defining the objectives of the NCC, should be amended to include a requirement for buildings to be resilient to predicted levels of natural hazards in the building’s planned location. The ICA also noted that the governance of the NCC must be reformed to place a greater focus on protecting buildings from damage during extreme weather.

Insurers provided responses which supported expanding the remit of the ABCB to include matters relating to property protection as an objective for the NCC and referenced Australian Standards, and made the following points:

- the NCC needs to consider a broader definition of risk, beyond life safety, and include the cost of poor resilience to hazards and potentially the extra costs associated from impacts on local economies
- a focus on protecting both buildings and life in equal measure would result in a more positive outcome for the residents of northern Australia
- the mission and objectives of the ABCB should be amended to include an explicit focus on building community resilience to natural hazards. Importantly, this would recognise the economic and productive value of assets in addition to the protection of life goals currently within the regulation.

One insurer cautioned that a more resilient building code will require some upfront investment to manage the long-run risks associated with natural hazards. They considered there may be a short term impact on affordability, as the cost of construction is likely to increase to cater for the building code changes. We note that a particular new design approach which may be more expensive at the outset, is likely to decrease in cost over time, particularly if it were to become a standard requirement.

To address issues caused by only building to the regulatory minimum requirements, one insurer considers the NCC needed to include prescriptive details to reduce drivers of loss and loss of building

---


353 Insurance Council of Australia submission to the NAII first interim report, p. 8.

354 Insurance Council of Australia submission to the NAII second interim report, p. 10.

function. Further, the insurer considers setting accountability provisions are needed to hold the original designers, builders and developers accountable over the agreed lifetime of the building.

Other insurers also proposed a range of possible building standard enhancements, related to wind damage, roofing materials, floor heights and foundations. These informed proposals are worthy of consideration by the ABCB and Standards Australia, but are unlikely to be considered under the current objectives.

The ABCB Office noted that if a change to its remit to include property protection were to be contemplated through a change to the ABCB’s Intergovernmental Agreement, careful consideration should be given to scope, since resilience of a building’s structural integrity is different to the protection of a building’s internal fittings and contents. Standards to protect interiors and furnishings would most likely exceed what would be considered the minimum necessary and cost effective to meet the other objectives for the development of the NCC.

Our view

Building standards that provide higher levels of resilience are likely to have an effect on the cost of building properties in higher risk areas, however in the long term it should reduce the economic and social costs of natural perils to the community and government. New properties developed to higher standards should have improved premium affordability and insurance availability. These benefits would also extend to properties that have been substantially redeveloped to the higher standards.

We are making a recommendation to expand the remit of the ABCB’s objectives to allow them to also directly consider property protection when developing the NCC. This change would also allow Standards Australia to directly consider property protection when developing referenced standards.

A change to the remit would enable the ABCB to work collaboratively with the insurance industry to identify potential changes to the NCC and how they would improve the resilience of properties and, as a result, the availability and affordability of insurance for those properties in the future.

We note that a change to the ABCB’s objectives as recommended here would take some time to be fully reflected in the NCC as proposals to improve property protection (that previously could not have been directly considered) are proposed and investigated.

In summary, we consider the national performance based framework provided in the NCC does not sufficiently consider the need to protect properties in higher natural hazard risk zones, leaving them more exposed to costly damage. These costs are ultimately borne by home owners through higher premiums or uninsured losses. We note the ABCB’s remit is limited and improvements in building standards to protect against property damage are unlikely unless governments amend the Intergovernmental Agreement to require this to be expressly considered.

Our view is such that an amendment should be made by the building and construction Ministers representing the Australian Government, the States and the Territories with responsibility for making the intergovernmental agreement. The potential gains in avoided property damage are significant and likely to increase over time. While strengthening building standards to better protect property would necessarily involve costs, existing processes to weigh up costs and benefits will help ensure amendments to the NCC provide a net benefit.

Recommendation 13.1

Expand the remit of the Australian Building Codes Board to include property protection

The Australian Government, and state and territory governments, should expand the remit of the Australian Building Codes Board to explicitly include property protection as an objective to pursue through the National Construction Code and referenced Australian Standards.
In adopting this recommendation, all levels of governments should provide an appropriate amount of time to the ABCB, Standards Australia and the building and construction industry for familiarisation, education, and for industry to modify its practices to accommodate the changes.

We also consider that there is a need for adequate data to enable the consideration of property protection under an expanded ABCB remit. The technical committees of both the ABCB and Standards Australia processes would require current and accessible insurance specific information and data that relates to claims associated with natural catastrophes.

All insurers have indicated that they would be willing to assist (to the best of their capacity) the ABCB, both directly and through the ICA, particularly in relation to claims associated with major peril events. It is in this capacity that we think the insurance industry could best contribute to the development of building standards to improve building resilience, rather than through a more formal role as an industry representative on the ABCB.

Additionally, the Australian Government has indicated support for the Royal Commission’s recommendations to establish a standing resilience and recovery entity, and in relation to national disaster risk information. The Government intends to establish by 1 July 2021:

- a national resilience, relief and recover agency that will coordinate and align Australia’s national capability to build resilience, better prepare for natural disasters, and recover from all hazards;
- a new virtual climate and disaster risk information and services centre, ‘Resilience Services’ which will connect and leverage the Commonwealth’s extensive data, information and capabilities to manage climate and disaster risk and assist in supporting long-term risk reduction and adaptation to natural disasters.

The Australian Government also supported the objective of the Royal Commission’s recommendation for governments to work together to develop consistent data standards to measure disaster impacts. These initiatives may also help inform future NCC amendment processes.

13.4 Helping consumers and insurers go beyond the minimum standards

In the event that recommendation 13.1 is adopted and property protection is expressly included in the ABCB’s objectives for developing the NCC, we note that the ABCB will still need to balance property protection against their existing objectives. Additionally, the ABCB will need to balance the expected benefits of NCC changes with their expected costs.

Some stakeholders suggested that the current building standards are best practice and the building and construction industry already goes above and beyond what is required under law. For example, the Housing Industry Association, which sits on the majority of ABCB technical committees, considers the term ‘minimum necessary’ (used in the ABCB’s objectives for developing the NCC) downplays the standards and rather it is the ‘minimum regulatory standard’, and in many cases it is best practice in comparison to other countries.

The Housing Industry Association also questioned whether compliance is the larger issue, for example, the proper installation of the product as intended. The ICA also suggested one aspect to improving the overall level of building resilience was the need for greater monitoring and enforcement to ensure

---

356 Royal Commission into National Natural Disaster Arrangements Report, 28 October 2020, Recommendation 3.5. Establishing a standing resilience and recovery entity: The Australian Government should establish a standing entity that will enhance national natural disaster resilience and recover, focused on long-term disaster risk reduction.

357 ibid, Recommendation 4.1 National disaster risk information: Australia, state and territory governments should prioritise the implementation of harmonised data governance and national data standards.


359 ibid, p. 8.

360 ibid, p. 10 (referring to the Royal Commission’s recommendation 4.6).
compliance, but this was secondary to ensuring there was a greater focus on property protection in the building standards.\textsuperscript{361}

Overall, while we expect that expanding the remit of the ABCB (our recommendation 13.1) will improve the resilience of future buildings, even the enhanced minimum standards set out in the NCC will not represent best practice in many cases.

Given this, we have considered measures that we think can increase consumer awareness of the implications of building characteristics and design choices with respect to insurance, and identify best practice in building resilience.

**Developing voluntary standards for resilient buildings will give consumers more confidence to build better**

For consumers wishing to build homes that are more resilient than required under the building standards, there is little guidance available to them which can reliably achieve better outcomes. Similarly, for consumers wishing to undertake property-level mitigation on existing homes, compliance with the current building standards will not generally lead to best practice outcomes.

Currently there is little guidance provided to consumers about how to build resilient buildings at a national level. We note some states and territories have developed state-based guidance information about issues to consider when developing in high risk regions. For example, the Queensland Reconstruction Authority has developed guidance materials for properties affected by natural catastrophes. The guides contain practical recommendations for communities rebuilding in storm tide prone areas, as well as advice on cyclone safety and storm tide measures.\textsuperscript{362} A separate guide relates to properties in areas along the coast that are prone to experience severe wind events.\textsuperscript{363}

However, this information is provided at a relatively high level, using non-technical wording. As such, it provides little practical guidance for builders on the materials and construction approaches they could use in specific instances.

Standards Australia has indicated that there is scope to develop best practice standards or technical specifications\textsuperscript{364} for homes in higher risk zones which go beyond the minimum standards required. Additionally, it was suggested there were currently discussions occurring about developing standards for retrofitting homes with resilience measures.

Australian Standards can provide a useful alternative and complement to the mandated minimum requirements set out in the building standards, allowing the community to choose a pathway that best suits their needs.\textsuperscript{365} A voluntary Australian Standard for more resilient housing could also encompass additional requirements that, if met, would represent higher levels of resilience. Homes could be certified as meeting a particular level of resilience in the same way the energy efficiency of houses is rated through the National House Energy Rating Scheme.\textsuperscript{366}

\begin{itemize}
  \item \textsuperscript{361} Insurance Council of Australia submission to the NAIi second interim report, p. 10.
  \item \textsuperscript{364} As described in Standards Development—SG-003: Standards and other publications, a technical specification is a normative document that has been subject to a limited form of transparency and does not have the support of the full consensus process normally associated with an Australian Standard. Consensus and transparency are two principles required of every Australian standards to maintain the openness and integrity of Standards that they will continue to of benefit to society. A technical specification may be prepared in a field where the subject matter, or a related aspect such as the regulatory environment, is undergoing rapid change and where speed of delivery, rather than full consensus, is of paramount importance. In such cases, it would normally be expected that an Australian Standard would eventually be developed to supersede the Technical Specification.
  \item \textsuperscript{366} National House Energy Rating Scheme, \url{https://www.nathers.gov.au/about}, viewed 2 November 2020.
\end{itemize}
We understand it is likely that many within the building and construction industry would continue to use the NCC, rather than any new voluntary standards, as a default starting position when building or retrofitting homes. However, where a consumer and/or their builder was interested in building a more resilient home, there could be significant benefit from having Australian Standards developed for this purpose.

There is also a need for greater clarity for consumers about the characteristics of a highly resilient building and retrofitting options to lower risk, as well as recognition from insurers to pass on appropriate premium reductions. To further support a more resilient future, this goal requires greater knowledge sharing between governments and industry to inform decision making processes. Put simply, the better the information and data available, the better placed decision makers will be to facilitate more resilient buildings.

There are a small but increasing number of government and industry collaborations that seek to promote the benefits of property protection and improving the resilience of new properties. An example of this is the ICA working with the Southern and Hills Local Government Association, on the ‘Where we Build, What we Build’ project since 2018. This is a project designed to increase the resilience of housing in a changing climate.367 368

Insurers are ideally placed to inform the development of any such standards given their detailed claims data and understanding of risk. Discussions with insurers were positive and supportive of any outcomes which could deliver greater building resilience, such as a new Australian Standard.

Where a building’s compliance against an objective standard can be certified, insurers could more easily factor this into their pricing process. This, in turn, will give consumers more confidence that investments in better design will improve their insurance outcomes.

Similarly, any potential government co-contribution programs for mitigation works could also reference a future voluntary standard as the basis for what works might be eligible for grants.

**Recommendation 13.2**

**Developing voluntary standards for more resilient buildings**

The insurance industry should work with Standards Australia to develop voluntary standards for:
- the development of new homes for resilience to natural hazards
- retrofitting/mitigation measures to improve the resilience level of existing homes.

The insurance industry should commit to recognising resilience measures meeting the new voluntary standards when setting premiums.

The recommendation we have proposed would provide clear standards for consumers and builders looking to develop or retrofit buildings to be more resilient, particularly in higher risk areas such as those in northern Australia. Voluntary standards can also assist in identifying new design approaches that can be considered for incorporation into the NCC at later reviews. Recommendation 13.2 is not dependent on whether the ABCB’s remit is extended as proposed in recommendation 13.1. We consider there is great value and merit in the development of objective standards for consumers to aim for when building for resilience in any case.

**Improving consumer awareness of the insurance implications of their design choices**

Builders typically have little incentive to build homes beyond the minimum required standards unless specifically requested by their clients.

---


An engaged and informed consumer can ensure higher levels of resilience in their new or renovated home, where they are more aware and educated about the long term benefits of resilience features. This can result in lower claims costs, lower insurance premiums, and more resilient housing stock.

Providing relevant information at the appropriate time will provide useful guidance to those interested in building more resilient properties, and prompt other consumers to consider resilience measures for the first time.

While we acknowledge that not all consumers will necessarily alter their design choices based on any guidance material provided, such material will nevertheless help to improve consumer awareness and the resilience of a proportion of housing stock.

Governments, as noted earlier, have made efforts to develop guidance material for residents in areas with a high natural hazard risk. Insurers and the building industry are ideally placed to ensure that relevant information on the risk and insurance implications of design choices is prepared and provided to consumers.

Insurers have a clear insight into the effectiveness of various measures at reducing natural hazard risk, and their knowledge should be utilised to develop, in conjunction with the building and construction industry, clear information for consumers on the options available to them.

Ultimately the building and construction industry will be the sector most engaged with consumers during the home building or renovation process. They also understand the costs associated with incorporating resilience measures, how to source the required materials and how to install them within the home. Therefore it is logical that the building industry should be involved in the creation and distribution of these guidance materials.

Consequently, we recommend that insurers and the building and construction sector work together to improve consumers’ awareness of the insurance implications of home building design choices.

Any guidance material prepared will necessarily need be at a high level, but would also vary by location with the predominant natural hazard risk(s). It would also be well-suited to raising consumer awareness of any voluntary standards developed as proposed in recommendation 13.2.

**Recommendation 13.3**

**Increasing consumer awareness of the insurance implications of home design choices**

The insurance industry should work with the building and construction sector to raise awareness of possible insurance implications of design choices for new construction and renovations.

This will help inform consumers of the potential longer term impacts of their design choices and how they can better protect their homes.

**Making it easier for insurers to recognise resilient building features**

Improving the resilience of properties is a worthwhile goal, but to really drive these improvements, the lower risk needs to be recognised by insurers and factored into premiums.

Obtaining reliable building characteristics data is problematic for insurers. They do not want to over complicate or lengthen quoting processes. Additionally, it is usually not cost-effective for insurers to inspect risks written.

Insurers generally use rating factors like the year of construction, wall materials and roof materials as proxies for resilience of a building. In order to recognise more resilient buildings in their pricing, insurers need to have confidence that resilient design features are in place, and be able to verify this quickly and easily.

As detailed in chapter 21, this is currently done to some extent but at a basic level. Consumers are generally required to bring these matters to the attention of their insurer, and the insurer normally relies...
on a manual process to take account of these factors (if at all). The process must be repeated for each insurer that the consumer seeks a quote from. Also, knowledge of any resilient design features may not be passed on to new owners if a property is sold.

A lack of reliable data that is easily accessible by insurers can be a roadblock to resilient building measures becoming more broadly adopted. A central register of more resilient properties could record key building characteristic data points that allow insurers to more accurately assess risk.

The ICA has put forward a similar proposal to develop a national building database to an earlier inquiry.\textsuperscript{369} One insurer also proposed the idea of a centralised mitigation database to our inquiry, whereas another insurer noted that in the absence of a centralised public database of properties, individual certification is required to provide assurance to insurers that mitigation has been completed and discounted premiums can be passed on to the consumer.

We note that any national building resilience register would be a significant, complex and costly exercise. The parameters of a register would need careful consideration by government, informed by broad consultation with insurers and other relevant stakeholders. The key parameters relate to the nature and reliability of the information recorded on the register, the coverage of the register, and access to the register. These are considered in turn below.

\textbf{Information that could be included on a building resilience register}

A building resilience register would enable property owners to provide information on their building specifications to a central register in a format that was meaningful and accessible to all insurers.

A building resilience register could include any enhanced design features or mitigation works (including those meeting any new voluntary standards arising from recommendation 13.2) as well as details of construction materials used, floor heights and other factors.

We have deliberately not been prescriptive on what inputs should be included in such a register. This would require more detailed consideration by governments in consultation with the insurance industry.

The insurance industry would need to identify what types of data would be relevant to their rating and pricing decisions, and therefore should be included on the register and in what format. To facilitate automated access to the register by insurers, participants will need to agree on how to formalise data standards.

Any register should also have the ability to evolve over time with changing building standards and methods, although we recognise that amendments would require consequential changes from insurers accessing the register, and a robust process for assessing proposed changes would be necessary.

Similarly, any consideration of a register would need to consider what processes are in place to ensure that the information recorded is accurate. Property information could be added to the register through the provision of documents supplied by a builder, or building inspectors, as part of their certification processes on behalf of the consumer. This may result in a slight increase in the regulatory burden of existing building inspection processes for those participating.

Where a consumer wished to register pre-existing building features, there would be a question of whether an independent inspection would be required. Alternatively, a more general disclosure obligation might be sufficient, similar to the proposed amendment to the Insurance Contracts Act requiring an insured to take reasonable care not to make a misrepresentation before entering into a consumer insurance contract.\textsuperscript{370} Consumers deliberately misrepresenting the resilience features of their property on a register would be at a significant risk of having a claim refused or adjusted down in the event of a large claim, however we recognise that this is not a perfect safeguard.


Another common concern of insurers generally is that buildings throughout Australia were often not constructed to the standard required in the NCC, or used non-compliant materials. While we acknowledge this issue can cause insurers to take a more conservative pricing approach, we note this concern is not specific to resilient building features, and processes have been established by the ABCB and relevant bodies to address this. More robust certification processes would also provide insurers with greater confidence in the information stored on a building resilience register.

We also note that any building resilience register may also be linked with or at least complement possible future natural hazard databases that may be developed. The Royal Commission in its report did not go as far to recommend the creation of a national database, instead it suggested that governments should explore the feasibility and practicalities of developing and maintaining nationally consistent assessments and projections of the frequency, intensity and spatial distribution of natural hazards in Australia.371 The Royal Commission also noted that exposure and vulnerability information (including dwellings or households and communities), at a localised level, is also required to give a more complete understanding of disaster risk and impacts.372

**Voluntary versus mandatory registration of new and existing property features**

As noted above, a building resilience register would be a significant undertaking. This is especially the case if it were to cover all existing properties. Mandating the registration of existing building details would not only greatly increase implementation costs, it would also raise significant privacy concerns. Also, just as registering more resilient property features would be expected to put downward pressure on premiums, the mandated registration of less resilient property features could lead to higher premiums for some consumers.

On the other hand, a register with only a limited number of properties would be unlikely to have the scale necessary to make it worthwhile for insurers to amend their pricing systems to automate access to it.

A middle option could also be considered, where participation by existing properties was voluntary, but new properties would be registered as a matter of course. Registration of property level mitigation works could also be required where the works were funded, or partially funded, through government grants. A more automated and entrenched process for registering the details of new properties (or even renovated properties) would see the scale and reach of a register grow over time.

**Access to the register**

It is important that any such register be available to all licensed insurers offering home insurance products. A register that was only open to some insurers would limit consumer choices and potentially be a barrier to entry or expansion into some markets.

We consider a building resilience register could assist with speeding up the quoting process as consumers will have less information to submit to the insurer and will require less manual consideration by underwriters of resilience measures. Consumers would not have to provide details of improved resilience to multiple insurers when obtaining multiple quotes, which should facilitate switching between insurers. A register would also help ensure that knowledge of the property’s resilience features is not lost if there is a change in property ownership.

Furthermore, it is likely that there are also broader uses for the data contained in such a register, for example, to inform governments of exposure levels within their communities and to allow for better decision making regarding disaster resilience. The use of data contained in such a register could also further research and contribute to disaster resilience initiatives.

**Our view**

We propose that the Australian Government consider developing a voluntary building resilience register, in consultation with the states and territories (and through them, local governments) and the insurance industry. This should include consideration of the issues discussed above, as well as an assessment.

---

372 ibid, p. 128.
of whether there would be sufficient demand with a voluntary approach to give insurers the scale necessary to link their pricing systems to the register.

**Recommendation 13.4**

**Building resilience register**

The Australian Government should, in consultation with state and territory governments and the insurance industry, consider developing a voluntary building resilience register that would record key building specification data (such as floor height or structural improvements for better resilience) of properties.

The register’s primary purpose would be to provide property owners with the ability to register their building information to provide insurers with a comprehensive central information source to recognise more resilient buildings and incorporate detailed property information into pricing systems.

The register could also help reduce knowledge gaps in community exposure information, to enable governments to make decisions around disaster resilience, and assist further research on building resilience.
14. Land use planning and future insurance affordability and availability

Key points

- Land use planning is the responsibility of state, territory and local governments. It is difficult and involves balancing many objectives, considerations and risks, in the face of strong vested interests. The complex and resource-intensive nature of natural hazard risk assessments add significant challenges to land use planning processes.

- Insurers have claimed that inappropriate land use planning has contributed to high insurance premiums in parts of northern Australia. Changes to land use planning may not alleviate the insurance affordability issues faced by existing properties in high risk areas, but they can help avoid the problem from getting significantly worse.

- In determining the degree of natural hazard risk that is acceptable for planning purposes, planners consider the risk to people and damage to properties. However, they do not appear to consider whether the residual natural hazard risks (that are not mitigated by planning controls) are at a level insurers are willing to underwrite at a reasonable price.

- Our inquiry has found that state and territory governments in northern Australia do not consider insurance as an explicit factor in land use planning. This limits the scope for local planners to seek or rely on insurers’ views or inputs in land use planning.

- Despite a shared interest in understanding potential natural hazard risks, we found there is little, if any, collaboration or sharing of information between insurers and planners during the land use planning process.

- Planners and insurers have mixed views about whether insurance could be considered in land use planning. However, with further support and guidance from state and territory governments, some planners are open to considering the insurance implications of planning decisions.

- State and territory governments should consider how their respective planning frameworks could allow planners to explicitly take into account insurance affordability and availability under existing planning objectives, and provide guidance to planners on how to do so. The Queensland Government’s state interest guidance materials regarding coastal hazards and landslide is an example of how this could be done.

- It is property owners, rather than developers or planners, who bear the insurance costs associated with residual (unmitigated) natural hazard risks. However property owners generally have no involvement in the planning processes that determine the acceptable level of these risks. As such, the different objectives and incentives at play do not work towards insurance affordability and availability.

- When considering natural hazard risks, insurers and planners use different information sources, consider different parameters over different timescales. Insurance premiums are also more flexible to reflect new risk information and changes in underlying risks because they are readjusted each year, whereas planners’ assessments of risk, and therefore planning decisions, are based on the best information available at a single point in time when proposed developments are assessed, taking into account a range of other objectives.

- Insurers generally rely on the flood studies and modelling undertaken by governments in their pricing of flood risks. Detailed flood modelling provided by local governments to insurers have led to more accurate pricing of flood risk and premium reductions in some areas. However, hazard mapping or data obtained for the purpose of land use planning are not necessarily fit for underwriting purposes due to differing requirements.
State and territory governments should explore opportunities for collaboration with insurers to determine how insurers’ inputs may inform land use planning processes. A better dialogue between governments and the insurance industry is necessary to understand the differences in their risk assessment methodologies and determine what information can be shared between the parties.

Greater collaboration between insurers and planners can improve the accuracy of insurance pricing, and help inform planners about the ongoing insurance cost implications that can result from decisions about acceptable levels of risk in planning decisions.

14.1 Background

Land use planning can have a significant impact on properties’ exposure to natural hazard risks. This in turn affects the potential for property damage and the expected cost of insurance claims, and therefore insurance premiums. Insurers have suggested that inappropriate decisions by land use planners have contributed to insurance affordability concerns in parts of northern Australia.\^373

We undertook to explore how land use planning frameworks and processes in northern Australia can be improved. Together with suggested reforms to building standards considered in chapter 13, improvements to land use planning may offer some hope for achieving sustainable and equitable improvements to insurance affordability in northern Australia. This will not directly help the affordability of insurance for existing properties in high risk areas, but can help avoid the problem of insurance affordability in northern Australia becoming significantly worse.

Focus area 7

**How future insurance affordability and availability is affected by land use planning**

We will work with insurers, planning bodies and other stakeholders to explore how insurance considerations can be factored into land use planning processes.

This will help us determine the potential for greater information sharing to improve the affordability and availability of insurance for new developments, and how the future availability and affordability of insurance should be considered as part of future planning processes.

Other relevant inquiries

Other inquiries have also considered land use planning, but more so in the broader context of how natural hazard risk is accounted for rather than its impact on insurance affordability and availability specifically. More recently, the Royal Commission into National Natural Disaster Arrangements has considered similar issues. Key findings from the most relevant inquiries are outlined below in box 14.1.

---

\^373 We use the terms ‘planners’ and ‘planning bodies’ interchangeably.
Box 14.1: Other inquiries that have considered land use planning

In 2014, the Productivity Commission’s Inquiry into Natural Disaster Funding Arrangements made a recommendation that governments and insurers should explore opportunities for collaboration and partnerships, including sharing natural hazard data and sharing expertise to inform land use planning.\(^{374}\)

In 2020, the Commonwealth Scientific and Industrial Research Organisation recommended in their report on Climate and Disaster Resilience that all jurisdictions should work together with local government and industry to deliver climate and risk information to all sectors. This included recommending the accelerated implementation of harmonised governance, and sharing common technologies, including the exchange of information for a national risk map.\(^{375}\)

In October 2020, the Royal Commission into National Natural Disaster Arrangements released its report outlining a number of recommendations, including that:

- State, territory and local governments should be required to consider present and future natural disaster risk when making land-use planning decisions for new developments.
- Australian, state and territory governments should prioritise the implementation of harmonised data governance and national data standards.
- Australian, state and territory governments should create common information platforms and share technologies to enable collaboration in the production, analysis, access, and exchange of information, data and knowledge about climate and disaster risks.
- State and territory governments should:
  a. each have a process or mechanism in place to communicate natural hazard risk information to households (including prospective purchasers) in ‘hazard prone’ areas, and
  b. work together, and with the Australian Government where appropriate, to explore the development of a national mechanism to do the same.

The Royal Commission into National Natural Disaster Arrangements heard that despite land use planning being a key factor in the extent of exposure and vulnerability to natural hazards, there are gaps in the information available to decision makers which can present a barrier to informed decision making. They are similarly aware of concerns around insurance affordability and the extent to which insurers recognise actions taken by householders to reduce risk.\(^{376}\)

14.2 Land use planning frameworks

In Queensland and Western Australia, land use planning is a shared responsibility of state and local governments.\(^{377}\) Both state governments develop overarching land use planning frameworks, regulations and policies (state planning instruments) that guide local governments in their development of planning schemes and assessment of development applications. In the Northern Territory, the Territory Government is the responsible body for land use planning and a single planning scheme, the Northern Territory Planning Scheme, applies to the whole of the Northern Territory, except for Jabiru.

Queensland’s planning framework

In Queensland, the key planning legislation is the Planning Act 2016 (Qld) and Planning Regulation 2017 (Qld). The State Planning Policy, the principal state planning instrument, expresses the Queensland Government’s interests in, and policies for, specified land use outcomes (known as the ‘state interests’). Local governments are required to consider how the State Planning Policy applies in their area.

---

\(^{374}\) Productivity Commission Inquiry Report Volume 1, Natural Disaster Funding Arrangements, 17 December 2014.

\(^{375}\) CSIRO (2020) Climate and Disaster Resilience.

\(^{376}\) Royal Commission into National Natural Disaster Arrangements Report, 28 October 2020.

\(^{377}\) We use the terms ‘local government’ and ‘local councils’ interchangeably.
when making or amending a planning scheme and must appropriately integrate those parts of the State Planning Policy. The State Planning Policy also contains assessment benchmarks that apply to development applications, to the extent the State Planning Policy has not been identified in a planning scheme as appropriately integrated.

The Queensland Government has also published guidance materials to support the ‘state interest’ policies. These guidance materials are not mandatory for local governments to use and they do not contain any new policy requirements. However, they are intended to be read in conjunction with the ‘state interest’ policies. They explain the ‘state interest’ policies in further detail and provide examples and options regarding how to appropriately integrate the ‘state interest’ policies into a local planning instrument. They also define the core concepts associated with the interpretation of a ‘state interest’.

Guided by the State Planning Policy and the guidance materials, local governments develop their local planning schemes that set out plans for managing growth and change in their local government area. The local planning scheme regulates what new development should occur and how. The Queensland Government has a role in reviewing a new local planning scheme or planning scheme amendments to ensure that the policies concerning each ‘state interest’ in the State Planning Policy are appropriately reflected in the planning scheme.

**Queensland Government’s guidance on planning for natural hazards**

One of the 17 ‘state interests’ specified under the State Planning Policy is ‘Natural hazards, risk and resilience’. The State Planning Policy requires that local governments identify natural hazard areas, including bushfire prone and flood hazard areas, and then manage land use planning in those mapped areas in accordance with the ‘state interest’ policies defined in the State Planning Policy. The Queensland Government has produced guidance materials for the natural hazard, risk and resilience ‘state interest’ in relation to bushfire, flood, coastal hazards and landslides.

Local governments are required to incorporate planning and development outcomes into their planning schemes that avoid new development occurring in natural hazard areas, or, where that is not possible, mitigate the risks to people and property to an acceptable or tolerable level.

**Western Australia’s planning framework**

In Western Australia, the key legislation governing planning and development is the Planning and Development Act 2005 (WA) (Planning and Development Act) and the Planning and Development (Local Planning Schemes) Regulations 2015 (WA). The Western Australian Planning Commission (WAPC) prepares and reviews planning strategy for the state and planning policies to guide local governments on planning matters.378

The WAPC provides the highest level of planning policy control and guidance through state planning policies (SPPs). SPPs can be subject or location specific, and are generally used for two main purposes:

- to assist the WAPC in its decision-making with respect to the subdivision of land and development approval under region planning schemes
- to provide guidance to local governments on the matters they need to take into account in preparing local planning schemes.

SPPs do not have a binding effect, but under the Planning and Development Act every local government is required to have due regard to SPPs in preparing or amending a local planning scheme. For particular SPPs, the WAPC publishes guidelines and position statements to provide guidance to local governments on the interpretation and application of the SPPs.

Local governments are responsible for preparing and administering their local planning schemes and policies to be consistent with the SPPs, among other planning instruments. The WAPC examines and reviews any proposed local planning schemes or scheme amendments which local governments submit to the Minister for Planning for approval, to ensure that they comply with SPP requirements.

378 See: https://www.dplh.wa.gov.au/getmedia/58e41b53-1db3-4ff4-a5b4-96592cc1fb35/WAPC-intro_to_planning_system, viewed 26 October 2020.
The Planning and Development (Local Planning Schemes) Regulations 2015 (WA) also introduced a set of deemed provisions that form part of every local planning scheme in Western Australia. In particular, clause 67 of the deemed provisions lists 27 matters a local government must have due regard to when considering an application for development approval, including any approved SPP, any policy of the WAPC and any policy of the state.

**Western Australia Government’s guidance on planning for natural hazards**

The relevant SPPs that govern planning for natural hazard risks are:
- *State Planning Policy 2.6: Coastal Planning* (SPP 2.6) and associated guidelines
- *State Planning Policy 3.4: Natural Hazards and Disasters* (SPP 3.4)
- *State Planning Policy 3.7: Planning in Bushfire Prone Areas* (SPP 3.7) and associated guidelines.

In addition, some SPPs contain measures that consider natural hazards in decision making.

The deemed provisions in the Planning and Development (Local Planning Schemes) Regulations 2015 (WA) also specify the suitability of the land for development, taking into account possible risks associated with natural hazards, as a matter to be considered by a local government in an application for development approval.

The Western Australia Government’s Planning Reform agenda includes a review of the Planning and Development Act. The *Planning and Development Amendment Bill 2020* (WA) includes a proposed amendment to section 27 of the Planning and Development Act, requiring the WAPC to also have regard to risks associated with natural hazards and other hazards in the preparation of a SPP.

**Northern Territory planning framework**

Planning and development in the Northern Territory is regulated by the *Planning Act 1999* (NT) and the Planning Regulations 2000 (NT). The *Planning Act 1999* (NT) provides for a single Northern Territory Planning Scheme to apply to the whole of the Northern Territory, except any area of land where another planning scheme applies (or an area specified as being excluded from the application of the scheme). The *Planning Act 1999* (NT) and Northern Territory Planning Scheme were recently amended on 31 July 2020.

The administration of planning is the responsibility of the Department of Infrastructure, Planning and Logistics. Local governments in the Northern Territory do not have any power to regulate land use planning. However, local governments must be consulted in relation to development applications under the *Planning Act 1999* (NT).

The Development Consent Authority determines development applications in seven division areas that are associated with the larger population centres in the Northern Territory. Outside of the division areas, the Minister for Infrastructure, Planning and Logistics is the decision maker for development applications.

---

379 Planning and Development (Local Planning Schemes) Regulations 2015 (WA), Schedule 2, Part 9.
380 SPP 3.4 which contains policies with respect to a range of natural hazards and disasters, including flooding, tsunamis, cyclones and earthquakes, is expected to be reviewed in the next three years. Also, six separate water related SPPs are also currently under review and amalgamation by the WAPC. This will update the existing policy on flooding (contained in SPP 3.4 and SPP 2.9), and will be informed by flood maps provided by the Department of Water and Environmental Regulation.
381 SPP 3.7, the associated guidelines and the State bushfire prone map released in 2015 by the Department of Fire and Emergency Services are currently under review with an expected completion date of early 2021. The new bushfire prone map is currently being developed in partnership with the CSIRO and is broadly based on the mapping approach undertaken in Queensland.
382 See for example, SPP 2, SPP 2.5, SPP 2.9, SPP 3, SPP 6.1.
383 Planning and Development (Local Planning Schemes) Regulations 2015, Schedule 2, Part 9, clause 67(q).
385 We note there is a specific planning scheme that applies to Jabiru which has been made under s.8 of the *Planning Act 1999* (NT).
Northern Territory’s approach to planning for natural hazards

The Northern Territory Planning Scheme contains overlays that identify physical or natural constraints, including storm surge, flooding and coastal reclamation, that may apply to a parcel of land. The overlays specify additional development requirements to address identified constraints.

The Planning Scheme also incorporates Development Requirements documents, including the Northern Territory Land Suitability Guidelines that outline the information required to address the term ‘unconstrained land’ in the Northern Territory Planning Scheme 2020 in the development assessment process. The guidelines address seven land suitability categories, including erosion risk, storm tide flooding and riverine flooding.

In addition, there are regional land use plans and policies for the major urban centres of Alice Springs, Tennant Creek, Katherine and Darwin that respond to particular natural hazard risks.

14.3 Is the affordability and availability of insurance taken into account?

Do planners currently consider insurance affordability and availability in land use planning?

Planners generally take into account the risk to human safety and the risk of damage to properties when considering how natural hazard risks should be managed and what risk thresholds and planning controls they adopt. However, planners do not appear to consider whether the residual natural hazard risks (that are not mitigated by planning controls) are at a sustainable level for insurers to underwrite at an affordable price.

In reviewing the Queensland, Western Australia and Northern Territory land use planning frameworks, as well as consulting with relevant planning authorities, we found that:

- planners do not specifically consider insurance affordability and availability when reviewing or amending planning schemes or approving developments, and there has not been any guidance on how they could consider it in their decision-making
- the state and territory governments have not required planners to consider insurance affordability or availability, or provided any guidance as to how this may inform any aspect of planning
- the insurance industry has not been involved in the public consultation processes for the development of planning policies or local planning schemes in the past. Therefore, planners have not received information about insurance affordability or availability that may be a relevant consideration in planning.

Why don’t planners consider insurance affordability or availability?

None of the state planning policies in Queensland and Western Australia, or the provisions within the Northern Territory Planning Scheme, specifies insurance affordability or availability as a planning consideration or a relevant factor in assessing and managing natural hazard risk. The only exception we have found is the state interest guidance materials regarding coastal hazards and landslide published by the Queensland Government where it had stated that examples of intolerable risk include a reduction in insurance affordability and availability. There is no further guidance on how local planners may obtain or rely on this indicator to determine intolerable risk.

387 Intolerable risk is defined in the Department of Infrastructure, Local Government and Planning in Queensland State interest guidance material—Natural hazards, risk and resilience: Coastal hazards and State interest guidance material—Natural hazards, risk and resilience—Landslide. It is a risk that, following an understanding of the likelihood and consequences, is so high that it requires actions to avoid or reduce the risk. Individuals and society will not accept this risk and measures are to be put in place to reduce risk to at least a tolerable level.

388 Department of Infrastructure, Local Government and Planning in Queensland, State interest guidance material—Natural hazards, risk and resilience: Coastal hazards, July 2017, p. 4; Department of Infrastructure, Local Government and Planning in Queensland, State interest guidance material—Natural hazards, risk and resilience—Landslide, July 2017, p. 4.
Under the current planning frameworks, local planners consider that they have little or no discretion to take into account other factors in their planning decisions outside of the state governments’ explicit directions articulated in the state planning policies. State and territory planning authorities in northern Australia are of the view that insurance affordability and availability are indirectly accounted for through the consideration of natural hazard risks.

Some local planners are concerned that making decisions based on insurance affordability concerns would expose them to (legal) challenges by developers or property owners for not following the directions of state planning policies or frameworks. Without explicit support or guidance from the state governments, and without proper understanding or knowledge of how insurers price natural hazard risks, planners are not confident in examining and giving weight to insurance affordability or availability during planning.

Planners also believe that insurance concerns are largely determined by the market and individuals’ financial decisions, and they relate to the economic viability of proposed developments. These factors are left to developers to consider and are not the focus of planning decisions.

Is there merit to consider insurance concerns in land use planning?

The local governments with whom we consulted have mixed views about the utility in considering insurance affordability and availability in land use planning. One local planner believes that it is important, because it ‘comes down to the cost of living and sustainability...we traditionally have not understood enough what the insurance industry looks at to make it more affordable... Insurance affordability is a real barrier for our community and economic development’.

Another planner acknowledged that ‘there may be an opportunity to explore better collaboration between insurers and the [planning body] in how a scheme is drafted, how risk is managed, how standards and mitigations are identified, and how insurers identify risk from a commercial perspective’.

Queensland Treasury said that ‘natural hazard information is used to inform land use planning by state and local governments in the public interest. It would be of benefit for the insurance industry to be transparent in sharing what natural hazard information they use to inform their decisions and policy interests they are seeking to achieve’.

QBE acknowledged that ‘while it would be beneficial for land use planners to consider insurance affordability and availability...this could prove challenging in practice, as insurers quote [premiums] based on the characteristics and location of existing properties that were developed following land use planning and decision-making that has already occurred’.

Suncorp considers that there is an opportunity for insights from the insurance industry on natural hazard risks and potential resilience measures to be considered as part of approval processes for future developments. However, further consultation with relevant planning bodies and the insurance industry will be required to specify what information would be necessary and practical for planners.

IAG submits that rather than requiring specific consideration of insurance affordability and availability, planners should be required to consider the ongoing costs of the full spectrum of possible natural disaster events over the design life of assets and communities. However, IAG also notes that ‘insurers’ approaches to measuring natural perils risk to properties would be helpful, as this does not appear to be explicitly considered by planners. IAG has provided advice in response to requests relating to specific proposals, such as, Rockhampton flood levees and various flood mitigation projects. The advice provided generally involves providing guidance on reductions in annual average losses to properties’.

Is there a communication barrier between planners and insurers?

State and territory planning authorities have traditionally relied on public consultation processes for insurers or the Insurance Council of Australia (ICA) to express their views or concerns, and have not included the insurance industry as a key stakeholder in planning before. We could not find any examples where the insurance industry has participated in public consultation processes to inform
planning policies. Our discussions with state and territory planning authorities in northern Australia and the ICA suggest that this is something they can overcome. This is explored further in section 14.6.

However, both planners and insurers consider that it would be impractical to consult with the insurance industry at a local level, particularly given the numbers of local governments and the challenge of having a consistent view from across the insurance industry. Because of the variances in their data sources and claims experiences, insurers often have different views of risk among themselves. Some insurers invest more in research and analytical tools to analyse and forecast risks than others, and some insurers may be more forthcoming than others in terms of sharing risk information with planning authorities.

**How could insurance affordability and availability be directly considered in land use planning?**

Current insurance affordability issues are partially a result of historical land use planning decisions that are now considered inadequate for the contemporary natural hazard risks. Insurers have the flexibility to exit high risk markets, use premium adjustments to increase premiums and reduce their exposure in particular areas, or simply decline coverage to high risk properties. We consider that governments must recognise this and adjust their natural hazard risk responses accordingly, including land use planning.

The lack of engagement to date between state and territory planning authorities in northern Australia and the insurance industry has limited the opportunity for the parties to acknowledge, consider, discuss and address the impact of land use planning on insurance affordability and availability.

**Insurance concerns need not be a primary planning consideration**

While adding insurance affordability and availability as an express planning objective would mean insurance could be given much greater prominence in planning decisions, we accept state and territory planning authorities’ opinions that such factors are largely captured through the consideration of natural hazard risk. The type of risk assessments planners must undertake to consider insurance outcomes and the levers planners have available to influence them, such as imposing building controls, are essentially the same as for managing natural hazard risks. However, planners’ consideration of natural hazard risks does not include consideration of insurers’ underwriting appetite. It also doesn’t consider how the natural hazard risk assessments of both planners’ and insurers’ may differ and whether those differences are material.

A planner from the Shire of Broome commented that ‘the traditional approach to the planning system in Western Australia [means] that the viability of the development proposal is not a matter considered and introducing a factor of insurance assessment in the planning system may not be the best approach’.

We do not consider that it is necessary to add insurance affordability and availability to the long list of explicit factors and planning objectives that planners must consider in making planning schemes or assessing development applications. This is because any foreseeable adverse outcomes on insurance affordability or availability can and should be taken into account as part of the consideration of natural hazard risks, which is already a primary planning concern.

**Considering insurance outcomes under existing planning objectives**

We consider a practical way forward is for state and territory governments to have more effective engagement with the insurance industry and reflect insurers’ views of risk in their strategic planning, particularly in relation to natural hazard risk. To select appropriate building controls, planners would need to determine the level of acceptable risk to the local community. This generally requires balancing the costs of building controls and the consequences of harm if natural hazard risks are not mitigated. Any residual risks would be borne by property owners or underwritten by insurers at property owners’ expense. If insurers are not prepared to underwrite the residual risks, then insurance availability problems are likely to arise. It is in this context that insurance availability concerns are relevant to the determination of what constitutes acceptable risk to the community.

The consideration of insurance outcomes may also be relevant to state and territory governments’ interest of housing affordability in land use planning as premiums can represent a significant
ongoing cost of housing.\textsuperscript{390} Similarly, the Salvation Army has argued in its submission to the Royal Commission into National Natural Disaster Arrangements that ‘an expansion of insurance ‘red zones’ of addresses that are essentially uninsurable will in turn impact housing affordability’. The Salvation Army recommends that governments and the insurance industry work together to incentivise hazard mitigation in building design and town planning.\textsuperscript{391}

Local governments have advised that the existing planning frameworks set by the state governments do not offer the flexibility they need to take insurance concerns into account where relevant but even if they did, local governments would need to seek guidance on how to do so practically.

There could, however, be a way to allow for this flexibility under the current planning framework. State governments could consider whether there is scope to allow planners to explicitly take into account insurance affordability and availability under existing objectives, such as housing affordability or natural hazard risks, and reflect any such scope in their guidance documents. An example of that is the state interest guidance material regarding coastal hazards published by the Queensland Government in which insurance affordability and availability is considered in the definition of what ‘intolerable risks’ are.\textsuperscript{392}

The Local Government Association of Queensland (LGAQ) advised us that in undertaking coastal hazard studies, conducting risk assessments and planning for natural hazards to meet the requirements of the Natural Hazards, Risk and Resilience state interest in the \textit{State Planning Policy}, natural hazard risks must be avoided or otherwise, mitigated to an acceptable or tolerable level. When developing a Coastal Hazard Adaptation Strategy (CHAS), local governments are referred to the QCoast\textsuperscript{2100} Developing a Coastal Hazard Adaptation Strategy: Minimum Standards and Guidelines for Queensland Local Governments (Minimum Standards and Guidelines).\textsuperscript{393} LGAQ also specifically advised as follows:

\begin{quote}
Although there is no explicit requirement under the Minimum Standards and Guidelines to include consideration of insurance availability/affordability when undertaking a CHAS, we’ve been advised that in practice the issue of insurance overall is typically considered within the analysis undertaken to inform a CHAS, particularly when CBAs [cost-benefit analyses] are undertaken. Risk assessment processes are about avoidance and adaptation and ensuring the lowest feasible level of overall risk remains which then may be transferred through the acquisition of an insurance policy.
\end{quote}

It is our view that state and territory governments should consider how their planning policies or guidelines could incorporate references to insurance affordability and availability in line with their planning interests or objectives, in particular objectives regarding natural hazard risks and also in relation to housing affordability. This would enable planners to give weight to insurers’ opinions/assessment of risk or insurance implications where appropriate.

\textsuperscript{390} See for example, Western Australia’s \textit{State Planning Policy 3.0 Urban growth and settlement} and Queensland’s \textit{State Planning Policy—Housing supply and diversity state interest}.

\textsuperscript{391} The Salvation Army, Submission to the Royal Commission into National Natural Disaster Arrangements, April 2020, p. 4.

\textsuperscript{392} Department of Infrastructure, local government and planning in Queensland, \textit{State interest guidance material—Natural hazards, risk and resilience: Coastal hazards}, July 2017, p. 4.

\textsuperscript{393} A CHAS assesses the risk from the projected effects of climate change over the medium to long term, proposes adaptation measures to mitigate these impacts and establishes an implementation program for the mitigation measures. A local council’s CHAS must be developed in accordance with the Minimum Standards and Guidelines that outlines 8 phases to follow.
Recommendation 14.1

Consideration of insurance affordability and availability under existing planning objectives

State and territory governments should consider how the current planning frameworks could allow planners to explicitly take into account insurance affordability and availability under existing planning objectives, and provide guidance to planners on how to do so.

Insurance considerations are most likely to be relevant to planning objectives regarding natural hazard risks and also housing affordability. Guidance material on these objectives (and any other relevant objectives) should explore how insurance affordability and availability could be considered by planners.

We note that, if adopted, this recommendation would also support the implementation of the Royal Commission into National Natural Disaster Arrangements’ recommendation for mandatory consideration of natural disaster risk in land-use planning decisions.1394

The following section considers how insurers and planners currently consider natural hazard risks.

14.4 Information used to assess natural hazard risks

Information used by insurers to assess natural hazard risks and price premiums

Insurers need access to the most up to date natural hazard information to ensure their assessment of a property’s risk, and the technical premium it calculates for the property, is accurate. Having incorrect or no hazard data can lead to incorrect assumptions being made about a property’s exposure.

The most commonly used external sources of natural hazard risk information are the ICA’s National Flood Information Database (NFID) (part of DataGlobe), Risk Frontiers’ Flood Exclusion Zone (FEZ) data, and data from Willis Re and Finity. Insurers will supplement this with data from other sources including from:

- Australian Bureau of Statistics
- Risk Management Solutions
- Risk Frontiers (who developed FEZ and are part of the NFID ongoing development)
- Quantium
- Guy Carpenter
- data held by local governments (that has not been provided to NFID).

Some data including natural peril models and mapping information are licensed through third party vendors (some of which are outlined above) and subject to terms of use agreements. This information is available at a cost.

We discuss some of the challenges with access to information below, including the role of DataGlobe and the NFID.

DataGlobe and the National Flood Information Database

Almost all insurers advised us that they rely on the NFID and/or DataGlobe when considering the flood risk of a property.

---

1394 Royal Commission into National Natural Disaster Arrangements Report, 28 October 2020, recommendation 19.3 Mandatory consideration of natural disaster risk in land-use planning decisions. We note that the Australian Government also advised in its response to the Royal Commission that it supports the objective of this recommendation, noting it is directed to state, territory and local governments.
The ICA administers the DataGlobe program which aims to deliver high quality hazard data for insurers and partners, as well as information for risk professionals and the community.\textsuperscript{395} The DataGlobe program contains a set of initiatives, including the NFID. The NFID is a database of address-level flood hazard data, processed from hazard mapping collected by the ICA from governments and updated regularly.

The ICA acknowledged its role in collecting, centralising and making hazard data available to insurers. It explained that individual insurers often combine this common data with their own data for use in underwriting, making it commercially sensitive. Each insurer then applies different methods for measuring risk, resulting in diverging assessments of the same risk.\textsuperscript{396}

Risk Frontiers Flood Australia is presently contracted to the ICA to produce a new version of the NFID each quarter by incorporating new flood risk data that has been collected by the ICA from governments and agencies.\textsuperscript{397} The NFID is funded through mandatory levies on all members of the ICA who write property risks.

Governments who make flood data available to the industry for use in the NFID can also obtain a sub-license, at no cost from the ICA.

DataGlobe also contains raw, rather than processed, hazard data which allows a more detailed understanding of risk at locations not addressed by the NFID, but raw data is not available for all NFID areas. Hazard information covered by DataGlobe includes earthquake, cyclone, extreme rainfall, flood, overland flow, storm surge and bushfire. However, no insurer has advised that they rely on the ICA’s DataGlobe for information to price perils other than flood.

Although DataGlobe is the key source for insurers to obtain government data, some insurers pointed out the limitations of this source, mainly because of different methodologies used to derive the risk data and concerns about accuracy and coverage.

Westpac commented that ‘while the NFID is one of the more comprehensive databases available for flood risk data, there are inconsistencies with the standard of data accessible for each region, with some areas having significantly outdated flood plain information. These gaps are largely due to the methodology for collecting data and updating of the NFID’. Concerns about inconsistencies are also highlighted by the following example where a customer queried their property being rated as high risk, which resulted in an insurer finding that the NFID data rated the property as ‘no risk’ whilst the data they sourced from their primary source suggested that the property was ‘high risk’.

Several insurers also outlined the limitations with local government participation in the NFID. In a document provided to the ACCC, one insurer noted that despite encouraging local governments ‘to release their flood assessment information to the ICA to enable accurate flood insurance rating’ in the NFID, ‘some are not willing to do so or have not been able to’. The insurer noted that ‘this situation would be avoided if councils supplied all their flood assessment information to the ICA’.

Westpac also advised that ‘the ICA often relies on State and Local Governments to proactively submit updated flood maps data. Some governments do not engage with the general insurance industry for the purposes of updating the NFID. It is our understanding that the ICA does not have the resources to continually contact and request updated maps from each Local Government in Australia’.

**Other sources of information used to assess risk**

As a result of the limitations outlined above, insurers often supplement NFID data with data from other sources for input into their modelling of flood risks.

One insurer noted that less than 1% of properties were priced for flood risk using NFID data or information sourced directly from local governments. For the majority of properties, they relied on proprietary data sources as their source of data for flood modelling purposes.

\textsuperscript{395} See \url{https://www.icadataglobe.com/}, viewed 26 October 2020.

\textsuperscript{396} Insurance Council of Australia submission to the NAII issues paper, p. 34.

\textsuperscript{397} Risk Frontiers Flood Australia is a consortium formed between Risk Frontiers and WillisRe.
Some insurers obtain data from individual local governments in addition to the use of the NFID. One insurer stated that it relies on council models for flood pricing in localised areas, where major levees have been constructed. Similarly, IAG stated that apart from the use of the ICA’s hazard datasets, it also obtains hazard datasets under the state government open data arrangements and through individual licence agreements with local and state government departments. However, it notes that in practice, only Queensland and Victoria (excluding the Melbourne Water floodplain management area) offer simple state-wide access to flood hazard data suitable for underwriting.

Suncorp pointed out that ‘insurers hold a range of data including flood maps, proximity to high tide markers or bushland, hazard models, and topographic mapping. However, insurers rarely use just one source of information in their models – instead collating data from a range of sources which have varying views of risk, and then calibrating risk profiles using these sources and the insurers’ claims and property data. This is why insurers often have different views of risk from other insurers, as well as government bodies’.

It does not appear that insurers rely heavily on government data for other natural hazard risks. Only two insurers advised that they use the National Vegetation Information System from the Department of Agriculture, Water and the Environment for bushfire pricing. One insurer commented that it uses bushfire attack levels from Geoscience Australia and also makes use of vulnerability curves developed by them for various perils.

### Information used by planners to assess natural hazard risks

Local governments typically undertake natural hazard modelling to inform risk reduction and resilience planning, particularly at the time of reviewing or developing local planning schemes. Development proponents rely on this hazard information to model specific development impacts in order to meet the local planning scheme provisions in relation to natural hazard risks. However, the quality and granularity of hazard modelling and risk assessments vary according to the resources available to the local government.

To inform their risk assessments, local governments also need to consult extensively and collect information on natural hazards from credible expert authorities such as:

- Commonwealth Scientific and Industrial Research Organisation (CSIRO)
- Geoscience Australia
- Local government associations
- State and territory government agencies
- Bureau of Meteorology
- Australian Institute for Disaster Resilience
- Australia Fire and Emergency Services Authorities Council
- Bushfire and Natural Hazards Cooperative Research Centre.

### 14.5 Factors affecting planners’ decisions about natural hazard risks

Planners can face a range of challenges in balancing development objectives and mitigating natural hazard risks.

As noted by the Planning Institute of Australia, the places that are considered ‘the most desirable places to live (and also the highest priced) can also be the most hazardous—both in terms of current climate risk and that of a changing climate—for example, land on hillsides with views and land close to the coast. The pressure to develop such land can be high... Further, increasing populations in these areas are brought about by migration based on economic opportunity or lifestyle, which are other key drivers of

---

398 LGAQ, Submission to Royal Commission into National Natural Disaster Arrangements Issues Paper: Local governments and natural disasters, June 2020, p. 5.
growth for planners to consider and address as part of their land use considerations and development decision-making. 399

We have also seen suggestions that local governments’ interpretation and implementation of state planning frameworks do not appear to have given sufficient consideration to natural disaster risk management and as a result have imposed costs on communities. 400

We consider the key factors influencing planners’ decisions on natural hazard risks below.

**Competing development objectives**

Planners must balance a range of development objectives and considerations. For instance, as discussed in section 14.2, the Queensland *State Planning Policy* specifies 17 ‘state interests’ that planners must integrate into their local planning schemes. To give planners flexibility in their decision-making based on the local circumstances they face, state and territory governments do not place any emphasis or priority on individual development objectives or state interests. Natural hazard risk is only one of the many considerations that must be considered.

Although state governments have a responsibility to review and approve local planning schemes, there is little oversight of decision making and how development objectives are balanced. In Western Australia, the Western Australian Planning Commission instead of local governments assesses development applications for property subdivision and therefore exercises more control on how development objectives are weighed up. In most other instances, it is up to the local governments, who don’t always have sufficient support or expertise to weigh up competing objectives.

QBE expressed that ‘state and local governments face a broad range of pressures when developing planning frameworks and making planning decisions including competing priorities such as population pressures and land availability and affordability which contribute to natural hazard risk being a lower priority in planning frameworks’.

Local governments may feel pressured to release land subject to high natural hazard risks, to satisfy the demand of growing populations and housing affordability objectives. Given local governments have discretion to prioritise one development objective over the other, this may result in different approaches to natural hazard risk management across local government areas, for example due to environmental, economic, cultural and social factors.

A key challenge for land use planners is to manage these competing development objectives. As noted by the Town of Port Hedland, there is a careful balance they have to strike in terms of social and environmental considerations. At a local level they want to promote population and business growth and they are trying to strike the right balance between this and natural hazard risk. A planner from the Shire of Broome noted that in coastal areas they need to balance where people want to be and still allow for growth. Several local governments advised that in the balancing act of considering competing development factors, considering the impacts of insurance is beyond their capability, control or influence.

**Pressure exerted from development proponents**

Several stakeholders commented on political pressures, observing that local governments don’t want planning decisions to restrict population growth and investment. Stakeholders similarly commented on the inability of planners to say no to proposed developments. One insurer noted that ‘local governments are at the tail end of the development approval process and often experience significant pressure to finalise their approvals’.

As noted by a local council, there is a conflict between a local government’s preference to avoid natural hazard risks in development areas and property developers’ incentive to maximise the use and profits of their land. QBE also pointed out that decisions to develop in areas at high risk of natural hazards ‘are made by local governments and developers, who bear little to none of the financial risk associated with

---

399 Planning Institute of Australia, National Land use Planning Guidelines for Disaster Resilient Communities, 2015, p. 37.
400 See for example, Insurance Council of Australia submission to the NAII second interim report.
subsequent natural disasters. Instead, the cost of this risk is borne by parties outside of the land use planning decision-making process.

This demonstrates that the different objectives and incentives at play do not work towards insurance affordability and availability. People with the strongest interests to ensure available and affordable insurance are generally not involved in the decision making process, and those that are involved either have no incentive to consider it or are unable to do so.

QBE noted that ‘poor land use planning continues to occur due, in part, to the lack of disincentives to develop in areas at high risk of natural hazards’. Several stakeholders argued that better pre-sale disclosure of natural hazard risk or insurance costs may limit the number of new properties being built in high risk areas.

QBE put forward a persuasive argument for the pre-sale disclosure of natural hazard risk:

> It is critical that potential home owners have access to information about natural hazard risk at the time of purchase—whether in the form of risk information provided by government, improved risk disclosure in mandatory planning certificates, or a requirement to obtain an insurance quote, as recommended by the ACCC’s earlier Northern Australia Insurance Inquiry report (noting this may not be possible for off-the-plan developments). This measure will increase the likelihood that home purchasers are knowingly and voluntarily assuming their natural hazard risks, and allow them to consider whether options exist to mitigate these risks.

Requiring the pre-sale disclosure of natural hazard risk is crucial to rectifying this issue and eliminating the incentive to build inappropriate developments in high risk areas. This is because developers and local governments will be less likely to build in areas of unacceptable risk if they know that prospective purchasers will be well-informed of this and may elect not to proceed with a purchase based on this information.

Consumers purchasing property may be unaware that a property is in a high risk area and do not consider the cost of insurance. The Royal Commission into National Natural Disaster Arrangements also recognised the importance of communication of natural hazard risk information to individuals, reporting that ‘Governments should develop ways in which natural hazard risk information can be better communicated to the public—particularly to people who are making decisions that will affect their exposure to those risks’. The Royal Commission also advised that ‘decisions like buying a house, making a property more resilient, or taking out insurance can be points at which to consider better communicating risk. For example, in real estate sales, this could be achieved by property or rates notices issued by local governments, or in insurance policies and renewal notices’.

In response to the Royal Commission recommendation, the Australian Government supported the principle that households in ‘hazard prone’ areas should have access to information that helps build resilience. It also urged states and territories to provide households with information that helps them to build their resilience to natural disasters, and advised it would welcome the opportunity to work with other jurisdictions to ensure such information is communicated nationally.

In chapter 18, we recommend that states and territories should implement measures to prompt consumers to investigate insurance costs when they are considering purchasing real estate.

We believe that if this recommendation is adopted it will provide prospective purchasers with a clearer expectation of the natural hazard risk and possible insurance costs associated with the property and provide a disincentive for developments in higher risk areas.

We also note that in Western Australia, the Planning and Development Act provides for the recording of information on a property title where the Western Australian Planning Commission considers it

---

401 See the Royal Commission’s recommendation 19.1 Communication of natural hazard risk information to individuals; Royal Commission into National Natural Disaster Arrangements Report, 28 October 2020, pp. 32, 404 and 406.

402 See the Commonwealth Government response to the Royal Commission into National Natural Disaster Arrangements, Commonwealth of Australia, Department of the Prime Minister and Cabinet, A national approach to national disasters.

403 Recommendation 18.11: Consider likely insurance costs before purchasing real estate. States and territories should implement measures to prompt consumers to investigate insurance costs when they are considering purchasing real estate.
desirable that the owners of land be made aware of hazards or other factors seriously affecting the use or enjoyment of such land. 404

**Pressure to meet community preferences**

Land use planning decisions can occur in the context of diverse socioeconomic factors and community and individual tolerances of risk. Even areas that are exposed to relatively high natural hazard risk may have other attributes that make them attractive, such as allowing for economic growth, being close to specific amenities, and providing access to water or bushland.

The Western Australian Local Government Association commented as an example that if governments require residents to clear all vegetation in the vicinity of their houses in bushfire prone areas, this would wipe out the vegetation that people want to live close to. There is a tension between the natural hazard risk people face and what risk they are willing to tolerate because of the characteristics of the location that they want to live in.

Population and density is increasing in Australia’s inner cities and any additional growth in these areas can worsen existing risk profiles without appropriate resilience measures. Growth in our coastal areas is also increasing, however these areas are particularly susceptible to hazards such as coastal erosion and sea level rise in addition to floods and hazards from cyclonic/storm action.

One insurer highlighted that ‘Local governments can also be compelled by State Governments and developers to finalise many residential developments close to the ocean, and potential hazard risk, due to high value and demand for properties with water views/access’.

**Little opportunity to liaise with natural hazard experts in practice**

The Productivity Commission’s Inquiry Report into Natural Disaster Funding Arrangements included concerns regarding instances where planners did not act on expert advice, resulting in developments going ahead in known high risk environments. 405

Risk assessment intrinsically has a degree of imprecision and uncertainty. Interpreting and integrating hazard data into planning decisions is a complex task. Suncorp commented that ‘there are many providers of risk intelligence, models and datasets and most of these are directionally accurate, but not absolutely predictive. Some are wholly inaccurate. This increases the complexity for stakeholders especially at local government level tasked with interpreting, understanding and integrating hazard data into planning decisions—many of whom are not actuaries, natural perils modellers or data scientists’.

Stakeholders highlighted the benefit of consulting with natural hazard experts to better incorporate natural hazard risk assessment in decision making. QBE advised that it considers land use planners should consult with suitably qualified natural hazard risk experts for the purpose of better integrating natural hazard risk information into land use planning decisions.

The Planning Institute of Australia observed there are many experts in flood risk management and bushfire management. As such, there is significant benefit for planners to work with these experts ‘to better articulate the physical, social and economic characteristics of communities and how natural hazards can affect those elements of communities to arrive at more considered risk management and adaptation options’. 406

**Resource constraints**

The Productivity Commission considered in its Natural Disaster Funding Arrangements Inquiry that ‘State governments should ensure that the local governments in their jurisdictions have adequate

---

404 Planning and Development Act 2005 (WA), section 165.


understanding of the statewide planning framework (including in relation to trade-offs and how to manage competing objectives) and are appropriately resourced to implement it’.407

Due to the complexity and resource-intensive nature of land use planning, resource constraints are still put forward as one of the key limitations in obtaining detailed natural hazard risk information and making planning schemes. For example, some local governments in rural Western Australia do not have in-house planners and are generally unable to conduct large scale planning reviews, instead relying on external consultants and state government assistance. QBE noted that as local governments operate within vastly disparate resourcing constraints, this can contribute to inconsistency in development planning decision-making.

State governments showed an awareness of resourcing issues. For example, the Department of Planning, Lands and Heritage (Western Australia) is advised by local governments when they do not have enough resources and support to make decisions. This information helps guide how the Department distributes additional support and resources, in particular for those local governments that have less funding available.

The cost of modelling and undertaking detailed risk assessments and studies is a barrier to achieving more informed land use planning decisions. Many local governments outlined the value of state government grants and funding to support their consideration of natural hazard risks, and that increased funding and resourcing would improve the quality of hazard information.

The Northern Territory Department of Infrastructure, Planning and Logistics considers that there are opportunities to utilise better mapping technology to improve site-by-site information relating to natural risk, which will provide greater detail to inform techniques for responding to localised natural risks. Understanding natural risk on a site by site basis has not been possible with earlier technology and would be particularly helpful for mapping flooding and storm surge events. The Northern Territory’s size and the financial resources available make the task of creating extensive mapping of natural risk and revising regulatory systems in response to this mapping, a difficult task.408

The Queensland Government provides default natural hazard mapping for plan making and in certain circumstances development assessment. These mapping layers include, but are not limited to bushfire, flood and coastal hazards (erosion prone area and storm tide inundation), and provide a minimum level of hazard mapping information in areas where the relevant local governments are unable to undertake local verification of the state government’s mapping due to funding or resource constraints.

LGAQ indicates that information local governments require to identify potential vulnerability and consequences, such as floor heights for flood impact assessments, building materials/age assessments, and socio-economic analyses, is not currently readily available and needs to be resourced as a matter of urgency.409

Technological limitations of risk assessment tools

The risk assessment tools available to planners do not always reflect up-to-date risk data, best available research or climate change assumptions. One example is the Australian Rainfall and Runoff (ARR) guideline and model used to estimate flood risk.410 This model was developed in 1987 when the relevant computer technology was emerging, and calculations were often done by hand. The model was not materially changed until 2016, when it took advantage of the significant advancements in technology, techniques and understanding of rainfall-runoff processes since 1987.411 The data used for the model

408 Northern Territory Department of Infrastructure, Planning and Logistics, Statement - Response to Royal Commission into National Natural Disaster Arrangements’ Notice to Give information NTG-HB1-034, 28 April 2020, p. 23.
409 LGAQ, Submission to Royal Commission into National Natural Disaster Arrangements’ Issues Paper: Local governments and natural disasters, June 2020, p. 5.
411 Geoscience Australia, through the four-year National Flood Risk Information Project (NFRIP, 2012-2016), provided the final tranche of Australian Government funding to Engineers Australia to complete the 2016 update and importantly ensured that the guidelines were published as open access. ARR was previously accessible only as a book on a fee for access basis with the copyright held by Engineers Australia.
is also now more relevant as it is derived domestically, whereas before 2016, the ARR was based on United States rainfall data. The model was again updated in 2019.

Westpac submits that because of the outdated assumptions and shortcomings of the data produced by the ARR model prior to 2016, insurers had to seek higher quality data elsewhere. ‘Given the rapid pace of technology advancement that can be applied in hazard risk modelling and the significant value of this data for the public and private sector’, Westpac stated that ‘it is imperative that major national hazard models such as the ARR are regularly monitored and updated in line with the highest standards of data modelling available in the market’.

QBE suggests that a ‘priority should be to ensure the development and updating of planning tools in land use decision making so that natural hazards are considered expressly and early in the planning process, and to reflect improved understandings and advances in areas such as:

- the nature of natural hazard risks
- improvements in natural hazard information
- changes in technology that facilitate improved information, including scenario modelling
- improved risk assessment techniques
- improved mechanisms for the treatment of risk’.

**Natural hazard risk information is updated infrequently**

It was also suggested to us that state governments should review the timeframes associated with planning scheme amendment processes and consider the resources local governments need to dedicate to the process. The complexity of the planning scheme review process deters more frequent updates of hazard risk information in the planning scheme and more timely planning responses to emerging risks. The Planning Institute of Australia commented that the process for updating planning schemes could be quicker for natural hazards.

It can take anywhere between 12 to 24 months to get modelling and reporting completed and translated into a planning response. A local council advised that the programs for amending schemes are quite substantial with a lot of resources involved, which could take up to two years leading to a delay in implementing new flood models. It also outlined that there is a challenge in having updated flood information and different information specified in the planning scheme during that time.

**Concerns about possible legal challenges**

An issue addressed as part of the Productivity Commission Inquiry Report into Natural Disaster Funding Arrangements was the legal liability restrictions, with some local governments expressing concern that legal liability inhibits them from making natural hazard information public, or making planning decisions based on risk assessment.\(^{412}\) Based on our consultation, legal liability concerning planning decision making continues to be an issue.

Further, our enquiries also suggested that on occasion decisions have been appealed or overturned and past precedent also relied on. This vulnerability of having decisions appealed and at risk of legal liability, means a balance of competing interests is difficult to achieve.

The issues currently lie with decisions being appealed and the exposure to liability as a result of risk assessment and decision making. This can impact on how planners make decisions and the subsequent exposure of developments to natural hazard risks.

One local council advised that there are extensive legal costs exposure and that defending a legal proceeding is very expensive. Even if the council is successful, they are most likely to still be out of pocket as costs are only awarded in the Queensland Planning and Environment Court in exceptional circumstances.

\(^{412}\) Productivity Commission Inquiry Report Volume 1, Natural Disaster Funding Arrangements, 17 December 2014, p. 31.
Another local council also expressed concern about local governments being taken to court by developers and that while there is a planning scheme [outlining how risk will be assessed], planning decisions made under that scheme can be challenged and are sometimes overturned.

The ICA also advised in its submission to the Royal Commission into National Natural Disaster Arrangements ‘state governments must ensure state legislation does not allow the judiciary to overturn planning determinations which would adversely affect the resilience of the existing community or unnecessarily exposes the proposed development to risk. There have been numerous instances in which state planning and environment courts have overturned local government decisions thereby enabling buildings to be developed on highly exposed flood-prone land without adequate disaster mitigation’.

As such, planners can find it difficult to balance competing interests. One local council pointed out that appeals and past precedents force local governments to adapt and influence planning policy in a way that rebalances these competing interests.

Legal liability issues have also been highlighted by local governments in Queensland and the LGAQ regarding compensation claims. The LGAQ advised:

Whilst some limited protections for councils do exist in Queensland (under the Civil Liability Act 2003; Disaster Management Act 2003; Planning Act 2016), to minimise liability and compensation claims for managing the risk associated with natural hazards, these protections are not extensive and do not reflect the full extent of the statutory protections for local government from liability that exist in other jurisdictions such as New South Wales.

**Measures to deal with legacy planning decisions**

Resource constraints also limit local governments’ capacity to implement ‘adaptive measures’ that can mitigate the risk exposure of existing properties. This is because they may be liable to pay compensation for diminishing the value of a private property. Examples of ‘adaptive measures’ include:

- land swap programs—used to encourage landowners to relocate by exchanging land in hazardous areas for land located in non-hazardous areas
- land acquisition programs—used to ensure that private land becomes available for public purposes and has been used for adaptation purposes
- time-triggered or event-triggered contingent approvals—event triggered approvals provide for the development and use of property until hazards materialise, at which point the development approval may lapse. Time triggered approvals allow for the development until a future point in time, at which point the approval will lapse, providing the decision maker with the discretion to reassess the appropriateness of the development
- rezoning and imposing development restrictions—usually involves modifying zones with a view to inducing landowners to adopt more appropriate uses, with the aim of decreasing the hazardous area’s risk profile.

Without financial and federal or state support, local governments do not have the appetite to implement adaptive measures that are generally very costly and can also be appealed. As a result, successful examples of adaptive measures are rare. The cost and difficulty of implementing adaptive measures heightens the importance of making the right decisions in land use planning in newly urbanised areas.

Several stakeholders have called for an increased use of these measures. As the ICA noted:

...where developed land is—or is likely to be—highly exposed to natural hazards as a result of poor land use planning, Governments should consider creative solutions to capturing and repurposing the land for hazard mitigation. For example, if a home built on highly-exposed flood prone land is destroyed in a flood, Governments could consider a land swap for that resident to a nearby location outside of the flood risk. The flooded land parcel could then be returned to its natural state and potentially reduce the flood risk for other properties. Similarly, highly exposed coastal properties

---

413 Insurance Council of Australia, Submission to Royal Commission into National Natural Disaster Arrangements, 28 April 2020, p. 13.
which are at risk of rising sea levels or storm surge could be repurposed as natural sea barriers. The ICA considers such measures warrant further investigation and investment by Federal and State Governments.\textsuperscript{414}

Suncorp also considered that ‘many communities which are exposed to high natural disaster risks are long established and must also deal with the legacy of homes which have been constructed in highly exposed locations.’

Suncorp also specifically outlined that ‘north Queensland faces significant planning legacy issues in this regard and [recommends that] caution should be exercised during future planning and development decisions at a local and State government level to prevent more homes and businesses unnecessarily paying for high flood risk’.\textsuperscript{415}

Stakeholders told us that ‘adaptive measures’ such as land swap or land acquisitions are rarely applied, as these options are very expensive and only viable in particular circumstances. Further to this, they would like state and territory governments to take more responsibility with the application of these measures. One local government told us that with legacy housing they always let people know of risks and this is all they can do - their hands are tied. Buy back is very costly and is probably something that would be the last resort.

As noted above, there have been few instances where such measures have been applied successfully which generally requires the full support and involvement of the state government. One such example is the town of Grantham in Queensland, where devastating flash floods in January 2011, led to a relocation of residents from the floodplain to higher ground.

As we have seen from the implementation of measures such as flood levees, in some places it is more efficient to implement structural mitigation measures to combat legacy issues. Other measures include educating residents about the risks and mitigation options, with some local governments dedicating more resources to this than others (see chapter 21 for a greater discussion on mitigation options for residents).

The Royal Commission into National Natural Disaster Arrangements also found that ‘existing, or ‘legacy’, risk needs to be identified and communicated, and proportionate action taken to reduce risk’ and that governments need to work together to address this risk.\textsuperscript{416}

14.6 Improving information sharing between insurers and planners

Compared to governments, insurers have more flexibility, and possibly resources, in reviewing and updating hazard data from a range of sources to inform their risk analysis. Insurers invest heavily in forecasting and estimating risks and costs of natural disasters and they have good data about the financial impact of natural disasters based on their claims experiences. The data insurers use to help them forecast costs and set premiums is discussed further in chapter 4. Insurers’ insights could be invaluable in assessing the benefits and costs of proposed building controls or standards for specific natural hazards. We consider that there is scope for planners to leverage on insurers’ knowledge and research on natural hazard risks to improve the robustness of their planning decisions.

Information sharing by insurers

Insurers and planning bodies both confirmed that insurers do not currently share any information with planning bodies. However, most planning bodies noted that they would like to see greater consultation with insurers. This includes:

- more participation from insurers when they revise planning documents, in particular, insurers could provide input into the methodology used to determine risk

\textsuperscript{414} Insurance Council of Australia submission to the NAII second update report, pp. 11-12.
\textsuperscript{415} Suncorp submission to the NAII issues paper, p. 21.
\textsuperscript{416} Royal Commission into National Natural Disaster Arrangements Report, 28 October 2020, p. 399.
for insurers to be more open (where possible) with data trends to assist with improving community
property resilience and mitigation

for insurers to more generally explain their methodology or be more transparent so both the
community and planners understand their assessment and appetite for risk and how these risks are
reflected in insurance premiums.

Planning bodies also said that they would benefit from a greater understanding of how risk is defined
and what risk information is relied on by insurers. In particular, they felt that state governments should
take the lead in determining the difference in approaches between planners and insurers, and how this
can be managed.

Most insurers confirmed that they do not directly receive information requests from planning bodies for
land use planning purposes. Only one insurer advised that they have received requests made directly
by local and state governments, however this entailed engaging them as part of a government project,
for example as part of a workshop or research project to better understand flood risk. Some insurers
have also provided advice in response to requests relating to specific mitigation proposals, such as
flood levees.

A small number of local governments pointed out that contact with insurers predominantly occurs
during disaster events and when they have worked together it is normally on natural hazard studies and
mitigation rather than general planning schemes.

Based on our research, it seems that the only existing structured method for insurers to provide
information or feedback is through the planning consultation processes, at a state or local level.
As discussed in section 14.3, we have not found any instances where the insurance industry has
participated in the public consultation processes for land use planning, or where planning bodies had
specifically approached insurers for information.

Several planning bodies emphasised that it would be better to have engagement with the insurance
industry at a policy stage rather than at a development stage. The Department of Planning, Lands
and Heritage (Western Australia) advised that there is the opportunity for the insurance industry to
participate in consultation processes, in particular making submissions and providing more information
on what is acceptable risk, when policies related to natural disaster are advertised for comment. Other
stakeholders noted that any information provided would have to be weighed up with other factors and
decisions would not be made specifically in response to insurers saying something is a significant risk.

The City of Karratha however advised that they would ‘definitely give weight to insurer information, a
huge amount of weight, and would look at how to manage and mitigate the risk identified’. Further, if a
negative outcome is raised they would seek to take a pragmatic approach to this and give it weight.

The Northern Territory Department of Infrastructure, Planning and Logistics acknowledges that
anybody whose interest is to look at risks associated with land and construction would be a relevant
party to the strategic land use planning processes; while insurers may evaluate natural hazard risks with
a different angle compared to land use planners, both parties are probably trying to achieve the same
ends. The Department commented that it relies on the ICA to come forward, but they have not had
any engagement to date and that it was amenable to adding the ICA to its list of key stakeholders for
planning consultation if this is demonstrated to be of value.

Insurers argued that the information they can provide will vary across insurers and any provision of
information would need to be carefully managed due to a number of sensitivities.

Suncorp noted that ‘provision of this proprietary, value-added data to local councils or State authorities
would need to be carefully considered and managed due to potential erosion of competition and
insurers’ investment in natural hazard analysis’.

We acknowledge that there may be commercial sensitivities with the kind of information that can be
shared by insurers regarding natural hazard risk assessment. As also suggested by some stakeholders,
we believe further consultation between planning bodies and the insurance industry will be necessary
to specify the information required and how this could be best provided. This is discussed further below
in ‘Ways to improve information sharing’.
Information sharing by planners

It is generally in the interests of insurance consumers that planning bodies share their most recent hazard information with insurers, enabling insurers to use accurate hazard data to price premiums.

Better data can lead to more accurate pricing

One insurer commented that ‘where data has not been made available by Government, insurers are unable to offer premiums that reflect the precise nature of flooding for the location. Prudential regulation requires that insurers carefully manage their risk exposure and pricing with regard to extreme events. Where no mapping has been made available, this often means a very conservative approach to setting prices’.

Floodplain Management Australia also noted that when the insurers generally hold ‘access to high quality flood data, premiums can be set to more accurately reflect the real risk. Most councils possess flood studies and mapping of varying degrees of accuracy and currency, which can assist insurers to better understand flood vulnerability.’ It went on to say that ‘there is evidence that premiums for many properties with risk of flood often go down after local governments provide insurers with more up to date or sophisticated data’.

Submissions from local governments shared similar observations to Floodplain Management Australia.

Box 14.2: Extract of submission from Mackay Regional Council

‘… Council resolved in early 2017 to provide the Insurance Council of Australia and other insurers with Council’s flood and ground level information. Every year, this information will be added to once new flood studies are completed. This information will also be available for residences via an online flood report tool that is currently being developed by Council.

The ICA undertook a first pass assessment of Council’s data in February 2017 and advised that of the 68,212 addresses as identified by the ICA that fall within the suburbs of the data Council provided, the industry could reduce premiums based on lower risk categories supported by the new information by approximately $11 million for the region. The findings included:

- approximately $0 change for 76% of ICA addresses,
- approximately $500 premium saving for 22%
- approximately $500 premium increase for 2% of addresses.

Council has assisted by providing the best available flood information to residents and liaised with insurance providers about the flood risk. Sometimes this improved information had contributed to reduced premiums...’

Suncorp also outlined in its submission to the Productivity Commission Inquiry into Natural Disaster Funding Arrangements that through updates to the NFID by some local governments they have been able to access this additional flood risk information to improve pricing models and substantially reduce premiums in some towns. Suncorp also provided example reductions, including the example in box 14.3 below.

417 Floodplain Management Australia submission to the NAII issues paper, pp. 1-2.
418 Mackay Regional Council submission to the NAII issues paper, pp. 1, 3.
Box 14.3: Example provided by Suncorp

Updated information for Port Douglas in North Queensland has allowed Suncorp to assign a nil flood risk rating to a large a section of properties previously assigned a low to medium risk rating. This has led to premium reductions of up to $1,000 and overall could save the Port Douglas community up to $2.5 million in premiums each year.\(^{419}\)

Box 14.4 below provides another recent example in southern Queensland where the availability of detailed and more accurate flood modelling data had enabled insurers to reduce flood premiums for some properties.

Box 14.4: Southern Queensland example

Following flood events in 2010–11, and in the absence of detailed flood modelling, most of the Toowoomba Region was given a high flood risk classification by the insurance industry, with whole postcodes being given the same flood risk classification.

The Toowoomba Regional Council commenced new flood risk mapping in 2012 and this resulted in the preparation of an amendment to the local planning scheme in 2018–19. The ICA advised the Council that the flood risk mapping was likely to have a positive impact on insurance pricing for properties in the Toowoomba region.

The availability of detailed flood modelling would allow insurers to refine their pricing of insurance. To demonstrate this, the ICA did a comparison of flood insurance premiums in Yarraman prior to flood modelling being undertaken with what would be expected now. The analysis found that out of the approximately 500 properties in Yarraman, over 400 would have been paying the highest level of flood insurance premiums. This would reduce to less than 100 properties when the new flood modelling is taken into consideration, with approximately 300 properties not having to pay for flood insurance at all.\(^{420}\)

The ICA’s Property Resilience and Exposure Program encourages local governments to engage with the insurance industry on the issue of insurance affordability, where the primary drivers may be because of poor-quality hazard data, or a lack of information on development controls and existing buildings. The program collates existing hazard mapping and building survey data provided by participating local governments. It seeks to improve the alignment between the data and hazard mapping relied upon by insurers to price risk and the information local governments harness for development control and town planning purposes.\(^{421}\)

The availability of information on natural hazards and exposure has improved significantly in recent years, especially in relation to floods. However, there is more scope for communication and coordination between the insurance industry and planning bodies to identify the differences in risk data required by planners and help improve the affordability and availability of insurance. See ‘Ways to improve information sharing’ at the end of this chapter.

Current availability of data

The quality and methodology of hazard data provided by state and territory planning bodies varies. The data that is available is generally accessible online to insurers (and the public) or is shared directly with the ICA, who processes the data on behalf of insurers (generally through DataGlobe).

---

\(^{419}\) Suncorp. Submission to Productivity Commission Inquiry into National Natural Disaster Funding Arrangements, 12 June 2014, p. 22.


Planning bodies made the following key points about the availability and sharing of their hazard information:

- In Western Australia, the state government undertakes bushfire mapping and flood mapping. They are published online by the Department of Fire and Emergency Services and the Department of Water and Environmental Regulation respectively. Local governments rely on these information to inform their planning schemes. Also, if the state government provides funding to a local government to undertake a Coastal Hazard Risk Management Adaptation Plan, which typically includes coastal hazard information, one of the conditions of the funding agreement is that the local government make the information publicly available.

- In Queensland, there is state mapping of bushfire, flood and coastal hazards which is available publicly on the State Planning Policy Interactive Mapping System. Local governments can conduct more refined studies for their areas—larger governments have reasonably sophisticated mapping systems and some provide this down to individual property level reports. The data sources and flood studies prepared and used by local governments in their planning schemes are accessible either on the Queensland Government Flood check website or directly from the local governments.

- In the Northern Territory, 1-in-100-year flood event (1% AEP) floodplain maps are made publicly available once they are endorsed by the Northern Territory Floodplain Management Committee. They are used to inform land use planning decisions and are published online.

State and territory planning bodies indicated that local governments or floodplain management authorities generally make their hazard risk information publicly available.

**Planners’ concerns about data sharing**

Local governments generally expressed their willingness to provide any data that is available publicly and directly to the insurance industry. The Department of Planning, Lands and Heritage (Western Australia) noted that local governments are becoming more comfortable with releasing data to inform planning decisions. As highlighted by several local governments, the issue is not with the availability of data but more so with the quality of data, the workings of the data and how up to date it is.

Local planning bodies used to be concerned about the legal implications of releasing or sharing data but this is no longer an issue of concern. Only one local government expressed concern that if they want to publish data outside of the statutory planning scheme review process they consider themselves to be at a risk of legal action.

Some planning bodies emphasised the need for greater transparency around how insurers use local council mapping, to ensure the information is being interpreted and used appropriately. One local council provided an example of where the data they had provided to DataGlobe had the potential to be used incorrectly and asked the ICA to update it so it reflected flood risks accurately.

Planning bodies did however speak about concern from residents about the sharing of flood mapping and data with insurers, particularly when they are updating their planning policy and conducting new flood studies, but that this did not influence their decision to release the information.

A local council advised that while it does make its flood information available to the insurance industry, its residents have expressed concerns that the release of new flood risk information would render their properties uninsurable or increase their insurance premiums. This is a common theme that came up across our consultation.

This is a potential unavoidable effect of releasing flood information, with the council noting that when they release their revised mapping and models there will be a number of properties which will have some level of assessed hazard they did not have before, resulting in changes to insurance premiums.

Mackay Regional Council advised that they go through a thorough consultation process when implementing flood studies. They write to landowners that are affected by a flood hazard (Defined Flood Event) to make sure everyone is informed and to let them know how it will affect them. Generally residents are concerned about the potential for new flood studies to affect the perceived risks associated with their properties. The council noted that they explain to residents the importance of
these studies in identifying their risks, which are particularly important in instances where insurance premiums will decrease as insurance companies are taking a conservative approach. As demonstrated in boxes 14.2 to 14.4 above, providing detailed flood information to insurers can also result in premium reductions.

Industry views

The ICA provided us with their general views, outlined in box 14.5 below, on the usefulness of the available flood data provided by planners for insurance purposes and what could be improved. This provides some guidance on how governments may enhance the quality and availability of flood data provided to insurers, enabling them to price flood risk at a property level more accurately.

Box 14.5: ICA’s views of state and territory government flood hazard data

Queensland

- The Queensland Reconstruction Authority has undertaken state-wide flood mapping, known as the Queensland floodplain assessment overlay. This is inadequate for underwriting or risk determination purposes. It is a coarse dataset that identifies areas where detailed higher resolution flood mapping should be considered. However, the hydrology based mapping that is commissioned for areas, as a result of being identified in the overlay map, is of great benefit for risk assessment and has been made publicly available.
- Queensland has the best practice in Australia for the majority of local government areas. It makes geospatial data publicly available where the state conducts the mapping.
- Where data is made available in Queensland it is typically of a best practice standard.
- There are minor issues in larger councils that do not participate in the state scheme and the ICA needs to approach these one-by-one and negotiate.

Northern Territory

- The Northern Territory Government has also made its flood mapping available at nrmaps.nt.gov.au.
- The mapping information provided through this service is very dated and lacks depth of information.
- This older mapping information is visually available online and of use for public education. It is of limited value for underwriting and cannot be downloaded in any format that would be suitable for underwriting.

Western Australia

- The Western Australia Government provides its flood mapping data via a floodplain mapping tool managed by the Department of Water and Environmental Regulation. This tool does not allow downloading of the data for injection into underwriting systems and models.
- Western Australia does however provide all data in a geospatial format to the ICA for distribution to insurers and use by insurers. The data is of reasonable quality but lacks depth of information. It is however updated frequently and is maintained well by the Department of Water and Environmental Regulation.

Ways to improve information sharing

Information objectives

Insurers and planning bodies require different formats for mapping and data to meet their respective objectives. Local governments for example will commission flood mapping for planning and community education purposes, which typically include climate change parameters. Conversely, flood maps
required by insurers may involve different parameters or additional processing and manipulation which may be a significant cost burden for the local council to accommodate.

Further to this, the mapping or data prepared by, or on behalf, of local governments may not be intended for use beyond its narrow specific purpose such as for community education.

Several local governments indicated an awareness of this and how they have worked with the ICA to tailor their mapping or data for insurance purposes. One indicated that as part of its mapping update it will prepare different versions of mapping, depending on the recipient. For example the maps they develop for insurers are for a near-term planning horizon and reflect a range of floods with different likelihoods (for example, a 1-in-20 to 1-in-500 year level). Land use planning maps are developed for a year 2100 planning horizon and reflect policy positions that are mandated by the state government, and those developed by council to preserve its flood resilience. They also advised that there needs to be a greater dialogue with the insurance industry about data.

Insurers also indicated that the flood studies and mapping undertaken by governments for land use planning are not necessarily fit for underwriting purposes. This could be for a number of reasons, including outdated mapping, level of detail and the quality of data (which is appropriate for the planners but not the insurer’s purposes). QBE suggested that ‘in the earlier versions of the NFID, some flood studies were of low quality and some manual adjustments had to be made’.

We believe that this issue would be assisted by an improved dialogue between the insurance industry and state governments to identify where the information gap is and how the issue can be addressed, including the potential for co-funding arrangements for hazard risk mapping. This is addressed in recommendation 14.2 outlined at the end of this chapter.

Understanding acceptable levels of risk

Planners’ views of what is an acceptable natural hazard risk may not necessarily align with insurers’ views on risk. While land use planners do consider natural hazard risks in their decisions, this must be balanced with many other objectives and an assessment of the level of residual risk a community is willing to tolerate. Conversely, insurers will have their own risk appetite and have a strong financial incentive to specifically account for natural hazard risks when setting premiums.

IAG noted in its submission to the Royal Commission into National Natural Disaster Arrangements that ‘current land planning and zoning requirements are misaligned with insurance risk, this dynamic in particular creates an affordability challenge for insurance and will only worsen as the risk increases with climate change’.422

Another insurer also pointed out that ‘an insurer and land use planning body may look at the risk from a different cost perspective—for example a council considering a levee may think that insurers are not reflecting the full savings from the proposed levee whereas insurers may think that the council is far too optimistic in the likely protection offered’.

One insurer provided mapping showing recently built properties where they offered insurance on the basis of a medium to high risk natural hazard assessment. In their view, ‘some of these developments were a result of adverse land use planning decisions’ and ‘would like to see the local government sector making use of the industry’s resources to make better planning and development decisions’ or utilise the ICA Property Resilience & Exposure Program ‘to test and determine hazard risk’ via the ICA DataGlobe.

Several planning bodies commented on the transparency of an insurer’s determination of risk and pricing of premiums. There was a consistent message that planners would benefit from a greater understanding of how insurers determine and price risk.

The Local Government Association of the Northern Territory expressed concerns about the differential between planning and insurance in how the risk profile of a property is developed. They believe this should be more defined and consistent and that it would be beneficial to have a better understanding

422 IAG, Submission to Royal Commission into National Natural Disaster Arrangements, 28 April 2020, p. 15.
of how premiums are set and what insurers’ vulnerabilities are—that is, what they consider high risk and why their appetite to insure is low.

The LGAQ also advised that the way risk is defined and established is important and if insurers are doing it differently, then state governments and local governments need to be aware of this, with the state government needing to take the first step to close this gap.

We agree with this view and believe that there needs to be greater communication between insurers and planning bodies to better understand an insurer’s consideration of risk and more closely align their natural hazard risk assessments.

One key area where planners and insurers appear to differ in their views is how to address flood risk, or the risk threshold adopted, for new developments in flood-prone areas. Governments typically avoid development or impose minimum floor height requirements in flood-prone areas. As outlined in box 14.6, all three jurisdictions in northern Australia have generally adopted a 1% Annual Exceedance Probability (AEP) of inundation, or commonly referred to as a 1-in-100 year event, as the default flood level, a benchmark used to determine minimum floor heights for new developments.

**Box 14.6: Provisions that control minimum habitable floor levels in flood-prone areas in northern Australia**

**Western Australia**

The Western Australia State Planning Policy No. 3.4 Natural Hazards and Disasters provides that proposed development on a floodplain (which comprises the floodway and flood fringe) is considered acceptable with regard to major flooding as long as it does not produce an adverse impact on surrounding development and it has an adequate level of flood protection. The 1% AEP is used as the defined flood event. All habitable, commercial and industrial buildings should have their floor levels above the level of the defined flood event.

For proposed developments located within a floodplain, the Department of Water and Environmental Regulation will provide advice on each proposal on a case-by-case basis. However, development that is located within the floodway and is considered obstructive to major flows will generally be deemed unacceptable as it would increase flood levels upstream. The Department of Water and Environmental Regulation generally recommends a minimum building floor level of 500 mm above the defined flood level for proposed development located in flood fringe areas or areas adjacent to a floodplain.

**Northern Territory**

The overlay for flooding in the Northern Territory Planning Scheme identifies areas with flooding risks and seeks to minimise risks to people, damage to property and costs to the general community by ensuring development in these areas have appropriate building controls. The overlay requires the minimum floor level of habitable rooms to be 300 mm above the flood levels of the relevant site (the 1% AEP flood event or the water level determined by the Controller of Water Resources within the meaning of the Water Act 1992 (NT)).

**Queensland**

The Queensland State Planning Policy for the ‘Natural hazards, risk and resilience’ state interest specifies that local governments should undertake fit-for-purpose risk assessments to identify and achieve an acceptable or tolerable level of risk for personal safety and property in natural hazard areas. (We note that local governments generally adopt the 1% AEP flood level as the defined flood level for the management of development and specify floor height requirements with reference to this flood level.)

---

423 This can also be referred to as Q100 or a 100-year annual recurrence interval event.
424 See the information provided in the floodplain mapping tool maintained by the Department of Water and Environmental Regulation. Viewed at: [https://dow.maps.arcgis.com/apps/webappviewer/index.html?id=9817b8d31c224846abb68a75478e9cf0](https://dow.maps.arcgis.com/apps/webappviewer/index.html?id=9817b8d31c224846abb68a75478e9cf0) on 26 October 2020.
The State Planning Policy also contains specific assessment benchmarks that apply where the state interest has not been appropriately integrated in a planning scheme. One assessment benchmark stipulates that for flood hazard areas, development should be avoided, or where this is not possible, development should mitigate the risks to people and property to an acceptable or tolerable level. State interest guidance material provides that compliance with this benchmark can be demonstrated by having habitable floor levels 600 mm above at least the 1% AEP flood event to account for the effects of climate change.

Depending on their underwriting appetites and their assessments of risk, insurers can have different opinions on what risk threshold is acceptable for screening developments. Suncorp states that ‘insurers are expected to provide customers with financial security in the event of any natural peril at the 1-in-200-year level (0.5% AEP). The same standard should apply to planning for new developments, and when approving construction work in existing developed areas’. Having said that, Suncorp considers a floor height which is at least above the 1% AEP flood level would ensure that the risk of damage being incurred in a flood is reduced.425

The ICA commented that the 1% AEP flood level could be insufficient in two ways:

1. Flood mapping may be inaccurate and prone to assumption failure (e.g. assuming all drainage will work at 90% efficiency), and as a result, buildings that satisfy the minimum standard are still exposed to 1% AEP flood event more frequently than anticipated
2. Accepting climate change scenarios, the 1% AEP flood event will rapidly change and become more frequent than previously modelled.

Suncorp adds that ‘current practices of high building concentration on the boundary of a 1-in-100-year flood area can become a problem of the future as the risk level changes with sea level rise. Noting the concept of a 1-in-100-year recurrence interval is subjective and reliant on modelling inputs which can vary, improved understanding of the current 1-in-100-year flood level (and beyond) will support development of planning regimes and building requirements that provide improved resilience over the coming decades’.

The risk threshold used to delineate flood-prone areas and specify floor height requirements has not always been 1% AEP. Planners acknowledged that in the past, some developments were approved and constructed without a good understanding of the area’s flood risk, or according to more permissive risk thresholds, such as a 1-in-20-year flood level (5% AEP) or 1-in-50-year flood level (2% AEP). As a result, we are seeing high insurance premiums for existing buildings in flood-prone areas that would no longer be considered suitable for development.

Similarly, there is a possibility that as our understanding of risk changes, or if natural hazard risks increase or intensify, developments approved according to current views of acceptable risk will in future be viewed by insurers as high risk and priced accordingly. The Royal Commission into National Natural Disaster Arrangements also acknowledged this issue, reporting that ‘the likelihood of increases in the severity and frequency of natural hazards should be taken into account in land-use planning and building decisions. These decisions should be informed by the best available data on current and future risk’.426

By way of example, we considered the flood premium components faced by an insurer’s customers in the northern Australia case study postcodes. As illustrated in figure 14.1, we found that where the property’s flood risk was rated at a level broadly equivalent to or greater than 1% AEP but lower than 2% AEP in 2018–19, the median flood component of premiums for home insurance and the building component of combined home and contents insurance was $307. This is compared to a median flood component of just $23 across all properties in these postcodes.

---

425 Suncorp, Submission to the Royal Commission into National Natural Disaster Arrangements, April 2020, p. 18.
426 See the Royal Commission into National Natural Disaster Arrangements Report, recommendation 19.3 Mandatory consideration of natural disaster risk in land-use planning decisions. As noted earlier in this chapter, the Australian Government also supports in principle this recommendation.
Figure 14.1 below shows the distribution of premiums for flood risk ratings of the insurer. The insurer describes their best estimate of flood risk from their range of databases, defined by the following flood return periods:

- flood risk 1 means the location is not exposed to flood risk
- flood risk 2 means the location is expected to flood less frequently than 1-in-100-years
- flood risk 3 means the location is expected to flood more frequently than 1-in-100-years
- flood risk 4 means the location is expected to flood more frequently than 1-in-50-years
- flood risk 5 means the location is expected to flood more frequently than 1-in-20-years.

Based on this scale, a risk rating of 3 or higher would be attributed to properties with at least a 1% AEP flood risk.

This illustrates the significant premium implications arising from an insurer’s assessment of flood risk at around 1% AEP, the threshold commonly used by planners. The level of risk assessed as acceptable when a development occurs will be reassessed on an ongoing basis by insurers when calculating premiums. As noted earlier, changing climatic patterns and more accurate risk data can result in a change to the estimated risk to a property and the price of insuring that risk.

Some stakeholders, including insurers, have also expressed concerns with the practice of relying on a threshold (commonly set at a default 1% AEP) rather than an outcomes-based approach which involves a consideration of all possible outcomes of potential flooding. Floodplain Management Australia noted that ‘in catchments where there are large ranges in flood depths, there exists the potential for substantial risk to life and flood damage between 1% AEP flood level and the Probable Maximum Flood level. State and local planning policies need to support the use of appropriate risk-based controls for development above the 1% AEP flood level in such circumstances’.\(^\text{427}\)

IAG explains that the threshold-based approach is not ‘adequate for the financial and other consequences across the full spectrum of possible events, particularly for rare or extreme events which...”

\(^{427}\) Floodplain Management Australia, Submission to the Royal Commission into National Natural Disaster Arrangements, 16 April 2020, p.3.
exceed the design conditions. The threshold-based approach can result in a build-up of low-resilience assets, particularly in the low-hazard zones where planning controls do not apply but the residual peril risk from events larger than the design event is still significant. IAG proposes a philosophical shift from a threshold-based approach to an outcomes-based approach, which requires planners to assess the consequences of the full spectrum of possible events over the sensible lifetime of assets and communities.

We have heard from stakeholders that some local governments who are experienced in dealing with natural disasters have started to use a more outcomes-based approach, rather than the threshold-approach. However, one local government advised that based on its experience, some development proponents had resisted the outcomes-based approach. This is because the flexibility of an outcomes-based approach, which tailors building controls according to the risks assessed, also introduces some ambiguity as to what development designs are required to satisfy the planning requirements.

In our discussions with local planners, no planners could confirm why the 1% AEP flood level was adopted as a default benchmark and when it was last reviewed. A wider discussion involving insurers and planners would, in our view, highlight the insurance implications that can result from the current threshold-based approach set at 1% AEP for flood risks.

**National open data platform**

Both IAG and the ICA have advocated for a national repository comprising the necessary information required for natural hazard risk management. They claim this will ensure that data is reported consistently and that it can be used to determine the exposure and resilience of buildings and communities.428

Insurers advised the ACCC that they are generally supportive of an open data platform that pools building specification data and natural hazard datasets, subject to it incorporating the most comprehensive and up-to-date hazard data and modelling available, as well as being adequately maintained over the long term. Insurer contributions to such a platform are unclear, with some insurers expressing reservations about their specific contribution. Suncorp commented that it ‘does not support insurers being required to provide their own natural hazard models or external models’ as it may ‘distort the market by eroding the competitive advantage of insurers’. As such, it seems the primary contributors would be state and local governments and relevant hazard experts.

QBE pointed out that ‘the ultimate objective ... [is] to reduce developments in areas that are at elevated risk of natural hazards and to encourage a consistent view on mitigation’ and that a national open data platform ‘may lead to the provision of more accurate and consistent data than currently available’. Suncorp noted that it believes ‘a natural hazard data platform is unlikely to materially improve the affordability of insurance in its own right. However, better consideration of natural hazard risk in land use planning decisions, should help to reduce risks to communities. As the risk reduces, insurance affordability and availability should improve’.

The Royal Commission into National Natural Disaster Arrangements also explored the pursuit of nationally consistent disaster related information and data.429 It noted that ‘although there are clear benefits in nationally coordinated data and information, ... [it] also acknowledge[s] that the best level for making decisions can be at a local level—national harmonisation of data and technology should not be at the expense of relevance to local communities, nor compromise local community responses’.430

The Royal Commission also found that ‘hazard data in respect of different natural hazards are at different stages of maturity in consistency and coverage’. It acknowledged that ‘state and territory

---

428 For example, see IAG, Submission to the Royal Commission into National Natural Disaster Arrangements, 28 April 2020; Insurance Council of Australia submission to the NAII issues paper.

429 This is broader than natural hazard risk data and mapping, it also includes climate and weather modelling, exposure and impact related data.

430 See Royal Commission into National Natural Disaster Arrangements Report, 28 October 2020, p. 121. See also Royal Commission’s recommendations 4.1 National disaster risk information and 4.2 Common information platforms and shared technologies. We note the Australian Government in its response has provided support for both these recommendations also advising that it has committed to establishing a new virtual climate and disaster risk information and services centre, ‘Resilience Services’, by 1 July 2021.
Northern Australia Insurance Inquiry—Final report

Chapter 14: Land use planning and future insurance affordability and availability

governments have developed, to varying degrees and for various purposes, regional and local natural hazard risk assessments, projections and maps and that ‘significant capabilities already exist in the commercial sector’. As such, it observed that Australian, state and territory governments should explore the feasibility and practicalities of developing and maintaining nationally consistent assessments and projections of the frequency, intensity and spatial distribution of natural hazards in Australia.  

Planners felt that as planning and relevant legislation and frameworks are managed at a state level (rather than a federal level) it would be more appropriate to focus on a state by state level for consistency and accuracy.

The ICA also noted that:

... it is evident that there are significant barriers to the Commonwealth undertaking this work, without agreement between the states and territories. As such, more progress has been achieved by encouraging individual states and territories to have a competent hazard mapping regime, with information fully disclosed to all parties, using a consistent assessment standard.

Whatever approach is adopted to collating and sharing natural hazard data, we think a useful preliminary step is for insurers and planners to work towards a common understanding of their respective information needs and attitudes to risk. We consider this further in the next section.

The way forward

There is a compelling case for a more open exchange of data between planners and insurers. However, there is no single way to facilitate this: both planners and insurers need to establish where the information gaps lie and what would be most useful. This will likely vary between and within jurisdictions.

We believe there is great merit in strengthening information sharing channels between planners and insurers and exploring opportunities for collaboration and partnership. This would enable the parties to discuss and agree on the type and format of information that can be shared and how the information should be used.

Planners rely on the best information available at the time of making planning decisions and are not well-equipped to estimate the cost impact of possible natural disasters, nor the impact on insurance affordability and availability. They are unlikely to have the resources to measure and assess the risks that remain or eventuate once the developments are built according to their initial planning decision. However, these risks would be reflected in the insurance premiums and claims data that insurers hold. This data may be helpful to inform future planning decisions of similar developments in areas with comparable characteristics.

As noted earlier, insurers often raise concerns about the impact that land use planning decisions can have on insurance affordability and availability. We consider it is in the interests of insurers to engage with planners to improve the mutual understanding of natural hazard risks in particular. More informed land use planning decisions will ultimately be in the interests of insurers and their customers.

There is no dedicated mechanism for the insurance industry to share its learnings from natural disasters to planning bodies to inform future planning decisions. State and territory governments are best placed to engage with the insurance industry (and associated natural hazard risk experts) on land use planning matters, informed by their interactions with local governments and local government associations. As such, we make the recommendation below.

---

431 See Royal Commission into National Natural Disaster Arrangements Report, 28 October 2020, p. 126.
432 We note, recommendation 4.2 of the Royal Commission into National Natural Disaster Arrangements was that the ‘Australian, state and territory governments should create common information platforms and share technologies to enable collaboration in the production, analysis, access, and exchange of information, data and knowledge about climate and disaster risks.’ The Australian Government has committed to establishing a new virtual climate and disaster risk information and services centre, ‘Resilience Services’, by 1 July 2021. This could help facilitate the engagement between the insurance industry and planning bodies. The Australian Government also advised in its response that it welcomes the opportunity to work with state and territory governments to create common information platforms and share technologies to enable collaboration in the production, analysis, access, and exchange of information, data and knowledge.
Recommendation 14.2

Better communication between insurers and planners

State and territory governments and the insurance industry should work together to identify:

- differences in risk data required by planners and by insurers, for example the level of detail required by insurers for underwriting purposes
- the potential for co-funding arrangements between governments and the insurance industry to facilitate the provision of data that can meet both planning and insurance requirements
- how natural hazard risk is determined, including how decisions are made on what is an acceptable level of risk. This may give planners a better understanding of how insurers assess and determine natural hazard risk and may influence planning policy and decisions for a particular identified risk
- what data insurers could provide to state and territory governments that have practical use to planners to assess natural hazard risks
- what other insights and value the insurance industry can provide to state and territory governments that may inform the development of planning policy and decisions for natural hazard risks.
15. Supporting customers experiencing payment difficulties

Key points

- Any household can experience payment difficulties at any time. In our conversations with consumer groups this year, many commented that insurance is among the first expense that customers experiencing financial difficulties will discontinue due to it competing with higher priorities such as food and housing costs.

- We are concerned that once a customer makes a decision to cancel their insurance (or it is cancelled by their insurer for non-payment), they may not move to resume it if their financial situation improves, thus risking significant financial loss.

- While insurance may not be considered as of equivalent necessity as essential services like electricity and water, insurance represents a crucial protection for what is likely to be a consumer’s most important and valuable financial asset. Consumer stakeholders highlighted a need to reframe what insurance is; to start seeing it as being about security and wellbeing, and in this sense, it is an essential service.

- When compared with the regulated frameworks for managing customers experiencing payment difficulties in essential services, such as credit and banking and utilities, there are only minimal requirements for insurers to support consumers experiencing payment difficulties. These are set out in the General Insurance Code of Practice and they exclude help for the payment of a premium.

- Most consumer groups observed that assistance offered voluntarily by industry to customers, even during a catastrophe, tends to be limited and inconsistent. They shared the view that without a regulatory obligation, the lack of consistency, and lack of transparency, of any voluntary measures offered makes it confusing for customers.

- We recommend that insurers should provide more support to customers experiencing short term financial hardship. Our recommendation is not intended to solve insurance affordability for consumers with chronic financial hardship or low income (we consider this in chapter 8). Rather, we intend it to provide premium payment support to help customers hold their insurance through a difficult time.

- Paying an annual insurance premium in monthly instalments can help with budgeting and lessen financial pressure. In northern Australia, around 56% of customers were paying their premiums monthly in 2017–18. However some insurers apply a flat fee or percentage surcharge of up to 20% for paying in instalments which can add hundreds of dollars a year to the average premium.

- We found that many insurers consider customers who pay monthly in instalments have a higher overall claims cost and they say the instalment surcharge is not so much about a payment administration fee, but rather reflective of what an insurer has assessed as a risk factor. That is, insurers consider customers who pay monthly are associated with higher claims costs than customers who pay annually.

- While we cannot conclude that a surcharge is necessarily an unreasonable charge, we do make a recommendation that customers should clearly be able to identify how much extra it may cost them to pay an annual policy by the month.

- We found that Centrepay is not widely offered by insurers, and data we collected from insurers suggested only one brand is offering it to eligible customers. It is therefore unsurprising that our survey suggested only 4% of eligible customers are using Centrepay for their insurance, although a further 10% of residents receiving Centrelink income who have insurance said they would use it.
The incoming General Insurance Code of Practice 2020 contains a new industry commitment to supporting customers experiencing vulnerability. We consider our recommendation that insurers be required to offer Centrepay is consistent with this commitment. While not without some implementation costs, we consider that offering Centrepay is a corporate social responsibility that will improve the accessibility of insurance and is therefore in the public interest.

15.1 Our approach

This chapter, supporting customers experiencing payment difficulties, is an extension of our 2019 focus on understanding the extent of, and reasons for, non-insurance (chapter 12).

As discussed in chapter 12, we found that rates of non-insurance for homes appears to be significant and growing in many parts of northern Australia, and that cost is the main reason for this. Particularly compared with the regulated frameworks for managing customers experiencing financial hardship in key services such as credit and energy, the requirements for insurers to support customers experiencing premium payment difficulties are limited.

On 1 January, the ICA released its 2020 General Insurance Code of Practice, to take effect by 1 July 2021. While the Code offers a number of improvements compared to the 2014 Code, it does not impose any substantively new obligations on insurers to provide support to customers experiencing premium payment difficulties. In particular, the financial hardship provisions continue to not apply to the payment of a premium.

We committed to, and commenced, our work on premium payment difficulties well before COVID-19 emerged in early 2020. We acknowledge the financial impact that COVID-19 is having on insurers and customers across Australia. While we have maintained our focus on the general situation of customers experiencing short term premium payment difficulties, the impact of COVID-19 is providing a highly relevant context to illustrate that any household can suddenly and unexpectedly become financially vulnerable. This has resulted in insurers offering support for consumers experiencing premium payment difficulties in ways they may never have before. With such widespread financial hardship among the Australian community, the need for robust payment support for insurance has been borne out in this COVID-19 environment.

Focus area 8

Supporting customers experiencing payment difficulties in the payment of a home or contents premium

We aim to establish what more insurers could do to support customers experiencing payment difficulties. In particular, we will further explore the reasons why insurers generally do not offer fortnightly payments and access to Centrepay. We will also explore whether hardship policies should cover customers having short term difficulty in meeting payments. In addition we will look in more detail at the basis for insurers imposing surcharges or loadings for paying by instalments.

The General Insurance Code of Practice 2014 requires insurers to provide financial hardship assistance to customers experiencing difficulty paying an excess, but there are no requirements to support customers experiencing payment difficulties in the payment of a premium. For many customers, being able to budget for insurance on a fortnightly basis or some consideration from their insurer to help catch up on a late payment might be the difference between them keeping their insurance and becoming uninsured.

The key objectives of our work on payment difficulties are to determine:

- the reasons why insurers impose surcharges on monthly instalment policies and whether consumers are adequately informed of the surcharges
- whether payment options such as Centrepay or fortnightly payments would improve the accessibility of insurance to low-income consumers
whether insurers should have obligations to support customers experiencing payment difficulties in relation to a premium payment, and what the support measures could include.

15.2 Payment difficulties can lead to underinsurance and non-insurance: what we already know

In chapter 8, we report on our work to investigate further measures that governments could consider that may have the potential to address acute affordability and availability issues in the supply of insurance in northern Australia. Our work in 2019 did not lead us to believe there is currently a significant widespread insurance availability issue. Rather, the problem is one of affordability: for many households, the cost of the insurance that is available is becoming prohibitive.

We discussed in that chapter that if governments want to consider further actions, to really challenge the acute affordability issues in northern Australia, there are a range of measures they can assess. We considered the merits of government reinsurance pools, government insurers, direct subsidies, mitigation programs, and licensing or authorisation conditions, ultimately proposing that subsidies have the most potential to offer targeted affordability assistance.

In chapter 12, we report on our investigations into the rates of home non-insurance, and the reasons for this. We found that rates of non-insurance for homes appears to be significant and growing in some parts of northern Australia. Based on our analysis of insurers’ policy level data, combined with ABS Census data, we estimated the rate of home non-insurance in northern Australia to be around 20%, on average. We also found the level of home non-insurance varied significantly between postcodes within regions, disguising pockets of deeper non-insurance.

We undertook consumer surveys in 2019 to better understand the reasons for non-insurance in northern Australia and found that more than 95% of surveyed residents without home building insurance attributed this to cost (52% said they couldn’t afford it and 45% couldn’t justify the cost). Cost was also the main reason for not getting contents insurance. Of the home owners in northern Australia who responded they did not have home building insurance, 61% said they had had it in the past. Of the respondents who did not currently have contents insurance, just under half (47%) had it in the past. These results are discussed in detail in section 12.3.

Some consumer groups commented that typically, insurance is among the first services that customers experiencing financial difficulties discontinue due to it competing with higher and more immediate priorities such as food and housing costs.

Our survey asked residents of northern Australia to rate the extent to which they felt under financial pressure to pay their most recent renewal, given their household income and other costs of living. About half of surveyed residents in northern Australia reported feeling financial pressure when paying their most recent premium. The survey suggested that perceived financial pressure generally increased with premiums. Nearly two-thirds (63%) of residents paying under $500 a year for home and/or contents insurance felt no financial pressure compared with one-third (31%) of people paying over $4,500 a year. However the survey showed that relatively lower premiums can still put households under a lot of pressure. These results are detailed in section 12.6.

Residents with contents-only policies reported the least pressure; 54% said they felt ‘no’ pressure. While intuitively we might expect a higher incidence of financial pressure for combined home and contents policies compared with building-only policies because of the higher average premium, the data would suggest the financial pressure is similar. This could mean that households feeling very high levels of financial pressure are choosing to hold onto their home building insurance as a first priority and dropping their contents insurance.

Residents paying higher premiums tended to respond differently to this pressure compared with those paying lower premiums. Over two-thirds (37%) of residents who were paying over $4,500 in annual premium (or the monthly equivalent) who felt this pressure increased their excess, compared with only 10% of those under $500 a year. Almost one-third (30%) reduced how much they insured their building or contents for and 11% arranged to pay monthly instead of yearly.
Higher premiums have added to the cost of living for residents of northern Australia and have prompted many consumers to reduce their level of coverage or lower sums insured. Non-insurance and underinsurance are real concerns, especially in regions vulnerable to natural disaster. A natural disaster can cause millions of dollars of damage throughout communities, and in the absence of high rates of private insurance or significant public aid, there may be limited prospects of recovery. Non-insurance could, in some cases, begin a lifetime of financial hardship for affected families and threaten the economic and social livelihood of communities. This is especially true for people on low incomes, as they are least able to absorb losses or readily replace or fix damaged property.

We are concerned that once a customer makes a decision to cancel their insurance (or it is cancelled by their insurer for non-payment), they may not move to resume it if their financial situation improves, thus risking significant financial loss if affected by an insurable event.

### 15.3 Paying by the month helps with budgeting but often costs more

The total premium is only one part of an affordability problem. Another important consideration is the customer’s ability to make the payment at the time it falls due. Insurance premiums have traditionally been paid in an annual lump sum, however insurers are increasingly offering consumers the option of paying in regular instalments. This can be appealing to consumers because it helps with budgeting and managing cash flow. However, consumers may not realise it might be costing them more and the reasons why.

In this section we report on:

- the incidence of customers paying monthly compared with annually
- the instalment surcharges imposed by insurers
- the basis and drivers for an instalment surcharge
- how much an instalment surcharge can add to a premium
- how insurers typically communicate their instalment surcharges to consumers.

**Incidence of paying monthly**

In northern Australia, the data we collected from insurers suggests that for the 2017-18 financial year, around 56% of customers paid their home and/or contents insurance premiums in monthly instalments, whereas in the rest of Australia it was around 49% (see figure 15.1). This is not dissimilar to the findings of our 2019 consumer surveys, where 53% of surveyed residents in northern Australia reported paying in monthly instalments. We do not expect the proportion of customers paying in monthly instalments would vary significantly year by year.
The consumer surveys added some potentially useful insights into who chooses to pay monthly. The main survey of residents of northern Australia found that renters, people paying off a home loan and families with children were the mostly likely to pay monthly:

- 65% of renters paid monthly compared with 51% of home owners.
- People paying off their home loan were more likely to pay monthly (63%) than people who had paid it off (36%).

Consumer groups that we consulted this year typically discussed that low income consumers are more likely to find it difficult to pay an annual insurance premium in a lump sum and therefore opt for a monthly instalment policy. However, they added that even if consumers have the funds to pay an annual premium at the time it falls due, they may nonetheless choose monthly policies because this could allow them to manage their cash-flow more easily, and save money for emergencies or unexpected events.

The large proportion of customers with monthly instalment policies shown in figure 15.1 seems to support the observation that the choice to pay by the month is not necessarily only because of financial stress, but also reflects people's budgeting preferences.

**Surcharges applied on monthly instalment policies**

Insurers and their brands have varied approaches to imposing surcharges or adjusting premiums if a customer chooses to pay by instalments. Of the eight major insurers in northern Australia, CommInsure and Westpac do not impose an instalment surcharge. That is, the monthly payment option is offered at no extra cost. Youi does not impose an explicit instalment surcharge but it takes into account payment frequency when calculating premiums.

RACQ’s instalment surcharge is $78 per annum and is only levied once per payment source—where a policy holder pays the premium on multiple policies from the same bank account or card, the surcharge is only charged once. Similarly, IAG charges an annual flat fee of between $40–60 per annum on its NRMA and SGIO branded insurance products.

Of the other insurers, at least some of their brands impose a percentage surcharge to each individual insurance policy. AAMI, GIO and Suncorp (brands of Suncorp) apply the highest instalment surcharge of 20% of the total premium. Allianz adds 11% to the total premium. Similarly, QBE applies a 10% discount to insurance policies that are paid annually, which means policies paid by monthly instalments are around 11% higher than if they were paid annually. Table 15.1 shows the monthly instalment surcharges for some of the major consumer brands.
Table 15.1: Monthly instalment surcharges applied by insurers on insurance premiums as at November 2020

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Brand</th>
<th>Surcharge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suncorp</td>
<td>AAMI</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>GIO</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>Suncorp</td>
<td>20%</td>
</tr>
<tr>
<td>Allianz</td>
<td>Allianz (Direct)</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>Allianz (TIO)</td>
<td>11%</td>
</tr>
<tr>
<td>CommInsure</td>
<td>CommInsure</td>
<td>No surcharge</td>
</tr>
<tr>
<td>IAG</td>
<td>NRMA</td>
<td>Between $40–60 per year</td>
</tr>
<tr>
<td></td>
<td>SGIO</td>
<td>Between $40–60 per year</td>
</tr>
<tr>
<td>QBE</td>
<td>QBE (Direct)</td>
<td>11%</td>
</tr>
<tr>
<td>RACQ</td>
<td>RACQ</td>
<td>$78 per year, per payment source</td>
</tr>
<tr>
<td>Westpac</td>
<td>Westpac</td>
<td>No surcharge</td>
</tr>
<tr>
<td>Youi</td>
<td>Youi</td>
<td>No explicit surcharge but may reflect payment frequency in the calculation of premiums</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

A higher proportion of CommInsure and Westpac customers chose to pay by the month in 2017–18, 84% and 92% respectively. The higher proportion of pay by the month customers may be due to these insurers not imposing surcharges for monthly payments as well as insurance often being supplied alongside a mortgage product, with direct debits for mortgage repayments together with insurance premiums occurring on a monthly basis.

It is important to note that just because an insurer imposes little or no instalment surcharge does not mean its retail premium is overall lower than its competitors’. Consumers should always compare retail premiums including all applicable surcharges or discounts to find the best policy for their circumstances.

**What are the drivers for instalment surcharges?**

We first looked at the surcharges that insurers charged in 2019. This year, we undertook to look in more detail at the basis for insurers imposing surcharges or loadings for paying by instalments. We wanted to understand why surcharges appeared to be more than just an administration or processing fee.

Insurers provided a range of reasons to explain what a surcharge is intended to cover:

- the forgone interest earned from paying upfront as opposed to deferred instalment payments
- any technical risk cost modelling differential (i.e. a higher loss ratio on insurance policies paid on a monthly basis rather than annual payments)
- any additional cost related to processing of instalment payments and any additional operational costs such as providing debit rejection letters, SMS and emails to customers, and handling calls from customers to reinstate cancelled policies following debit rejections.

Unlike other services (such as utilities for example), where instalment surcharges generally reflect additional administration costs and forgone interest, instalment surcharges in the insurance sector often capture a type of cost that is unique to insurance—expected claim costs.

All insurers who impose an instalment surcharge reported they have observed higher claim frequencies and/or claim costs with respect to their monthly policy customer groups, compared to their annual policy customer groups, after accounting for all other correlated factors. As such, insurers’ technical risk modelling generally suggests that higher premiums are required for monthly instalment policies. One insurer confirmed that the correlation between loss ratios and premium frequency is the most significant determinant for its instalment surcharge. In essence, payment frequency is used as a risk rating factor.

---

433 Loss ratio generally refers to the ratio of gross incurred claims to gross earned premium.
An internal document we received from one insurer provides some insight into why insurers may be reluctant to cross-subsidise between the annual policy and monthly policy customer groups. The document suggested this is because it would require an insurer to price its annual policies on higher rates, thus limiting volume growth opportunities for its annual policies while at the same time, if the insurer’s instalment surcharge is too much lower than its competitors, its monthly instalment policies may attract more monthly-policy customers (which may then warrant further cross-subsidisation). We observed from insurers’ internal documents that insurers typically monitor and compare the instalment surcharges imposed by their competitors when they review their own instalment surcharges.

We are not aware of any published research or evidence to demonstrate why monthly-policy customers have higher claims costs. One insurer noted in its internal analysis that ‘monthly policies have observed more dishonour behaviours and higher likelihood of lodging claims in [the] first three months, this is more likely to be found in new business’. Two insurers have observed that the loss ratio differential between the two payment frequency customer groups is most prominent in the category of working claims (e.g. fire, theft, water and electrical damage) but not natural peril claims.

Some insurers also take into account renewal and/or retention rates exhibited by the two payment frequency customer groups when determining the amount of instalment surcharges. One insurer said that ‘Instalment customers have a shorter expected lifetime than annual customers, so the upfront policy expenses are spread over a shorter period, resulting in a higher cost per policy year’. Another insurer described for one of its retail brands that ‘predicted renewal probability are used as inputs when calculating the retail premium for Home Insurance policies in Northern Australia… Since billing plan is a significant feature in those models, this factor influences the calculation of the retail premium…’ One insurer inferred that ‘cancellation rates are higher for instalment policies because there are more opportunities for a customer to enter into a state of payment delinquency during the policy period’; and this often results in the ‘automatic cancellation of a policy’.

Also, insurance instalment surcharges often involve some degree of cross-subsidisation. General insurance providers generally operate across multiple states and/or territories, have multiple retail brands and product lines including motor, building and contents insurance. The loss ratio differentials exhibited by the different payment frequency groups vary across different retail brands and product lines. We have observed that insurers generally compare the loss ratios of different payment frequency groups and determine their instalment surcharge at a portfolio level, which may include multiple retail brands and/or product lines, while some insurers choose not to impose instalment surcharges for particular retail brands as a customer value proposition. As a result, the instalment surcharges that insurers impose involve some cross-subsidisation across their retail brands and product lines.

As shown in table 15.1 above, insurers have different ways of applying their instalment surcharges, some apply a flat fee and some apply a percentage of the annual premium. The variances in insurers’ risk modelling and pricing approaches, coupled with the effect of cross-subsidisation, make it challenging to benchmark or break-down insurance instalment surcharges.

How much does a monthly payment surcharge add to an insurance premium over a year?

Figure 15.2 shows that customers in northern Australia pay a higher monthly surcharge (in absolute terms) on home and/or contents insurance policies than customers in the rest of Australia. With the exception of those charged a flat fee surcharge, a household with an above-average premium would pay proportionately more over the course of the year (in absolute terms), and this would explain most of the substantial differences between the regions. In 2018, the surcharge for the AAMI and Suncorp brands was increased by 5 percentage points to 20%, which would have further increased monthly instalment payments. The difference in surcharge between northern Australia and the rest of Australia was between 37 and 115% for all home and contents insurance products in 2018–19.
Figure 15.2: Average monthly instalment surcharge paid in 2018–19, all home and contents insurance products (selected insurers)

We also used the actual data collected from insurers to estimate the total surcharge collected on all home and contents insurance products from customers who pay their annual insurance premiums in instalments. In northern Australia in 2018–19, $20 million (or 2.2% of the total gross written premium in northern Australia) was collected in surcharges for paying by monthly instalments. For the rest of Australia, this amount was around $113 million (1.4% of gross written premium).

How do insurers communicate the instalment surcharge?

Our examination of insurers’ product disclosure statements found that only Coles (an intermediary of IAG), NRMA (IAG), SGIO (IAG), QBE and Youi have listed payment frequency as a risk rating factor in calculating premiums.

The consumer groups with whom we consulted were generally unaware of insurers’ practices in pricing instalment surcharges according to loss ratio differentials between monthly-paying and annually-paying customer groups. It is therefore reasonable to assume that most customers are similarly unaware that when they elect to pay in monthly instalments, their policies are likely to be assessed as a higher risk and that this may lead to higher premiums.

In one insurer’s internal document, the insurer ‘recognised that there is room to improve [its] customer communication to provide transparency of how [its] PBTM (pay by the month) loading is constructed’.

Given the seemingly limited understanding consumers have about the implication of their payment choice on the overall risk rating of their policies, we consider that a good disclosure practice for insurers is to be more transparent about instalment surcharges and disclose to customers whether they use payment frequency as a risk rating factor in calculating premiums.

For some consumers, budget constraints leave them little choice but to take up instalment policies despite the additional cost. This issue is particularly acute for vulnerable and low income consumers. Consumer groups have suggested that consumers don’t often realise or understand the cost impact of instalment surcharge on their premiums.

We observed that insurers generally disclose enough information for a customer to understand that the option of paying premiums monthly costs more. However, they do so with varying degrees of transparency and do not present the instalment surcharge or loading amount in a consistent way. For example, some identify the total extra amount payable over the year in dollars or the sum of monthly instalment amounts for ease of comparison, but others use a percentage or just a statement that it costs more to pay monthly. Table 15.2, together with figure 15.3, provides some examples of how insurers present the cost of paying by monthly instalments on online quotes.
Table 15.2: Examples of how insurers display premium quotes online

<table>
<thead>
<tr>
<th>Ways that insurers display monthly instalment quotes online</th>
<th>Examples of brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Displays the cost difference in dollars terms between paying annually and in monthly instalments</td>
<td>NRMA (IAG)</td>
</tr>
<tr>
<td></td>
<td>SGIO (IAG)</td>
</tr>
<tr>
<td>Displays the cost difference in percentage terms between paying annually and in monthly instalments</td>
<td>Allianz</td>
</tr>
<tr>
<td></td>
<td>TIO (Allianz)</td>
</tr>
<tr>
<td>Displays the monthly instalment amount and a caption that it’s cheaper to pay annually but leaves the customer to compare it to the annual quote and calculate the difference</td>
<td>Suncorp (Suncorp)</td>
</tr>
<tr>
<td></td>
<td>GIO (Suncorp)</td>
</tr>
<tr>
<td>Displays the total sum of 12 monthly instalments but leaves the customer to compare it to the annual quote and calculate the difference</td>
<td>Coles (intermediary of IAG)</td>
</tr>
<tr>
<td></td>
<td>RACQ</td>
</tr>
<tr>
<td></td>
<td>QBE</td>
</tr>
<tr>
<td></td>
<td>YOUI</td>
</tr>
</tbody>
</table>


Note: Westpac and CommInsure do not apply an instalment surcharge or loading for monthly instalment policies so are not listed in the table. CommInsure specifies that there is no additional premium for paying monthly on its online quotes.

Figure 15.3: Examples of how insurers display premium quotes online

a. Suncorp

b. TIO
c. RACQ

d. NRMA


Notwithstanding that most insurers’ premium quotes are reasonably clear and enable customers to calculate the cost difference in paying an annual premium and paying by monthly instalments, we consider that a requirement on insurers to present this premium difference consistently across the industry would increase transparency and assist customers to make more informed decisions. We therefore recommend that insurers should always prominently display the premium difference between an annual policy and an instalment policy in dollar terms on online quotes and on renewal notices.
### Recommendation 15.1

**Better disclosure of instalment surcharge costs**

Insurers should be required to provide the premium difference (if any) over the life of a policy between paying annually and paying by instalments, in dollar terms, at the time they provide an insurance quote, including on renewal notices.

The lack of transparency by some insurers about the extra cost of paying by instalments makes it difficult for customers to understand their premiums and identify ways to save money.

### 15.4 Should insurers offer Centrepay or fortnightly payment options?

Consumer groups have long been advocating for more flexible payment options such as fortnightly payment and Centrepay to improve insurance affordability and accessibility.434

Centrepay is a fortnightly instalment payment method available to recipients of Centrelink income to pay for a range of typical household expenditure. It usefully matches a consumer’s fortnightly receipt of Centrelink income with fortnightly payments to approved service providers. Deductions of agreed amounts are made to service providers from the consumer’s Centrelink income and the remainder is deposited in the consumer’s bank account.

Centrepay is widely available to, and used by, eligible consumers of other important household goods and services, such as energy, water and telecommunications. However it is not widely offered by insurers, despite having been made available by Centrelink to insurers for home and contents insurance premiums in 2011.

The issue of whether fortnightly payments and/or Centrepay should be more widely available for insurance customers is not new. In the most recent review of the 2014 General Insurance Code of Practice (the 2014 Code), having considered submissions that the Code should consider consumer needs for flexible payment options, the ICA concluded that it was not the role of the Code to mandate the products that insurers offer;435 It stated that more accessible payment options, including Centrepay and fortnightly payment options, are open to insurers to utilise. The ICA noted that at least one insurer offers each of these. According to the ICA’s interim report for the review, insurers that offer payment through Centrepay had advised that it could be an administratively burdensome process, and may not be an appropriate requirement for all products.436

### Why do consumer groups advocate for fortnightly payment options and Centrepay?

Centrepay has overwhelming support from consumers and service providers who use the system and from community organisations who recognise that it is a valuable and convenient money management tool for many low income consumers.437

One obvious attraction of fortnightly instalments, whether by Centrepay or direct debit, is that it allows customers to pay their premium in smaller amounts at regular intervals, compared to monthly premium instalments or an annual premium. Fortnightly instalments are also considered to better align with a typical fortnightly income cycle, therefore making it easier, especially for low income consumers, to

---


budget. It may also minimise default payments and late payment fees arising from a mismatch in the timing of income and expenditure.

Fortnightly payments do not only benefit low income consumers who are under financial constraints, but any household who budgets fortnightly or has limited disposable income. Legal Aid Queensland advised that free financial counselling services that consumers have access to generally tailor their financial advice to a fortnightly budget to spread the risk and expenditure throughout the year for consumers.

In 2013, Good Shepherd Microfinance (now known as Good Shepherd Australia New Zealand) released a discussion paper on insurance access for people on low incomes.\(^{438}\) Overwhelmingly, stakeholder feedback it collected to inform its paper from outside the insurance industry pointed to the introduction of fortnightly payments as the most important step in increasing access to various forms of insurance. While many stakeholders also advocated for Centrepay to be adopted by insurers, especially in conjunction with the introduction of products designed for low-income policyholders, making fortnightly payments generally available was seen as a leading priority.

When questioned about fortnightly payments, aligning payments with people’s pay cycles and catering to the low income market, one respondent to Good Shepherd’s 2013 discussion paper commented that insurers were ‘10 to 15 years behind the banks’.\(^{439}\)

In their joint submission to the review of the 2014 General Insurance Code of Practice, consumer groups emphasised that Centrepay has the advantage of assisting people in low-income households to budget, and to avoid late payments and the risk of policies lapsing or being cancelled.\(^{440}\) Consumer groups that we spoke to as part of our consultation this year reiterated these points, often discussing that households on lower incomes need to be very good at budgeting.

**Which insurers offer a fortnightly payment option or Centrepay?**

We are not aware of any insurer in northern Australia that is offering Centrepay for a home building insurance product and Suncorp is the only insurer offering Centrepay for a contents insurance product. We discuss Suncorp’s product, Essentials by AAI, in more detail in section 12.9. There were only 61 Essentials by AAI customers using Centrepay in northern Australia in 2018–19.

CGU and WFI, both retail brands of IAG, offer a fortnightly payment option with no surcharge for their home and contents insurance customers. However, they do not offer Centrepay. IAG also indicated that it has established a strategic program of work that includes modifying its policy payment system to allow for fortnightly, monthly, quarterly and annual premium payment options for some of its other retail brands.

Allianz advised that a relatively small number of its customers are currently paying their premiums by way of fortnightly payments but this option is not offered widely across its organisation.

Table 15.3 summarises the limited choice for customers who would prefer to pay fortnightly and/or by Centrepay.

<table>
<thead>
<tr>
<th>Insurers (retail brands) that offer Centrepay and/or fortnightly payment options in northern Australia in 2019–20</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Centrepay</strong></td>
</tr>
<tr>
<td>Home building insurance</td>
</tr>
<tr>
<td>Home contents insurance</td>
</tr>
<tr>
<td>Suncorp (Essentials by AAI)</td>
</tr>
</tbody>
</table>

Source: ACCC analysis.

---


\(^{439}\) Good Shepherd Microfinance, *Covering the essentials: Increasing access and affordability of insurance for people on low incomes*, July 2013, p. 10.

What are the costs, challenges and concerns with offering fortnightly premium instalments and/or Centrepay deductions?

Industry has previously explained they face a number of difficulties in accepting fortnightly payments through Centrepay, such as transaction fees, the risk of cancelling a policy if a person’s Centrelink payments are suspended, and the incompatibility of many insurers’ systems, which are generally built to accept monthly or annual remittances rather than fortnightly payments.\(^{441}\)

As part of this inquiry, we asked insurers to explain why they do not offer Centrepay and fortnightly payments, and we received a similar range of explanations. Several insurers highlighted the costs of providing the services was a deterrent, especially the $0.99 (including GST) transaction fee for each payment, which cannot be passed on to the customer\(^{442}\), and the cost of developing and maintaining the payment infrastructure to accept fortnightly payments was also raised. The cost to provide the service was a particular concern of insurers who perceived there to be insufficient demand by customers or lack of competitive pressure to offer it.

We examine these issues in further detail below.

**Insurers’ costs of accepting fortnightly payment and/or Centrepay**

We asked insurers to indicate the costs and challenges involved in updating their payment systems to accept fortnightly payments. The cost estimates provided by insurers varied widely, ranging from $300,000 to about $4.3 million. One insurer informed us that its payment processing system has the capability to process fortnightly premium payments currently.

Specifically, insurers offered explanations of the types of change they would need to make, including integration of payment system with distribution and sales systems and networks, and updates to transactional documentation and billing/dishonour management. It seemed that some insurers have payment systems that are more flexible and could be updated more easily than others.

In addition, many insurers indicated they expect additional ongoing operational costs for processing fortnightly and/or Centrepay payments, with one insurer estimating ongoing costs as high as $1.6 million per annum for producing direct debit rejection letters and reminder SMSs, and handling increased call volumes with respect to reinstating cancelled policies.

We also asked insurers about their merchant fees/transaction costs of different payment frequencies and payment methods to help us consider how much more Centrepay or fortnightly payments would cost than existing payment options on average.

Figures 15.4 and 15.5 show the average transaction costs that insurers would incur for an insurance premium of $1,400 (the average premium in the rest of Australia in 2018–19) and an insurance premium of $2,500 (the average premium in northern Australia in 2018–19) respectively over the 12-month term of a policy, sorted by payment method and frequency, including Centrepay. The two figures demonstrate that the higher the insurance premium, the less the cost difference between Centrepay and the other payment types.

The analyses do not include all payment methods that an insurer may offer and it does not include any associated costs to process payments. Some payment methods, such as BPAY, are offered for the payment of an annual premium only.

---


442 Over the course of the year, this would amount to around $25.74 per customer (for 26 fortnightly payments). As a condition to become a registered business to offer Centrepay, the business must agree not to pass on the Centrepay transaction fee to customers (See Services Australia, *Business Application form—Centrepay SA 389*).
As demonstrated in figures 15.4 and 15.5 above, for payments involving credit and debit cards, increasing the payment frequency from monthly to fortnightly instalments only increases the transaction costs to insurers marginally. This is because transaction costs for these payment methods are largely charged as a percentage of the transaction value, together with a very small fixed fee.

Direct debit from a bank account generally incurs a fixed fee and therefore increasing payment frequency from monthly to fortnightly will increase the transaction costs that insurers have to pay, more than doubling them.
AMEX credit cards generally involve higher transaction costs compared to other payment methods and could be as high as or higher than the Centrepay transaction costs if the insurance premium value is sufficiently high. Not all insurers offer AMEX as a payment option.

On a per-transaction basis, a fortnightly payment seems to represent a very small additional cost, compared to a monthly payment. However, depending on the insurance premium value, the cost of a Centrepay transaction is potentially many times higher than other popular direct debit payment methods, by Visa or MasterCard or from bank accounts. This is particularly the case for lower cost policies.

**Insurers say there is uncertain demand for fortnightly payments or Centrepay**

Insurers also advised us that they had not been motivated to offer fortnightly payments or Centrepay due to the uncertainty of demand. One insurer advised that it decided not to provide a fortnightly payment option after a significant amount of customer research and testing, because only a very small proportion (less than 8%) of customers took up the fortnightly payment option when it was offered. The insurer considered that even a relatively modest cost measure may not be commercially feasible in the absence of a critical mass of potential policyholders that would take up this option. It also noted that insurance intermediaries may not have the systems to facilitate fortnightly payments or the cost to achieve this may be prohibitive for them relative to the demand they support.

**Higher default rate associated with increase in payment frequency**

One insurer suggested that introducing fortnightly payment would lead to a higher payment default rate, and therefore higher costs involved in maintaining a default payment process. Conversely, the stated objective of Centrepay is to reduce financial risk by providing a facility to have regular deductions made from their welfare payment.443

Similarly, another insurer suggested that customer retention is likely to be impacted by introducing a fortnightly payment method as a result of increased debit failures. It explained that operational processes for debit failures often mean that by the time the customer is notified of the debit failure, the next debit is being taken out. This can result in insufficient funds being available for the subsequent debit and, on occasion, multiple bank fees being charged. We are also aware of some insurers’ concerns that insurance would not be considered a priority and a customer’s Centrelink payment may be fully allocated to other expenses, potentially leaving insufficient funds to pay their premium.444 The Centrepay Policy and Terms provide that where a customer has multiple Centrepay deductions, the deductions will be made in any order the customer has arranged.445

**Higher risks associated with increase in payment frequency**

As discussed in section 15.3, insurers have generally expected higher claims risks associated with instalment policies. One insurer proposed it had seen evidence among its insurance customers in another (but comparable) insurance market of there being an inherently higher risk with customers that choose to pay fortnightly, compared with those choosing to pay monthly or annually, requiring higher risk loadings.

Based on current underwriting practices, if insurers observe a materially higher claim costs associated with fortnightly or Centrepay payment customer groups, they may impose higher instalment surcharges or insurance premiums for these customer groups. However, not all insurers use payment frequency as a rating factor or would necessarily differentiate between monthly paying and fortnightly paying customers in pricing.

---


444 If a customer’s welfare payment will not cover all deductions that are scheduled to be made, the business is responsible for collecting any underpayments from the customer (see 11.7 of Centrepay Policy and Terms v3.0, ibid).

445 Where a customer has multiple Centrepay deductions from their welfare payment, the deductions will be made (a) in any order the customer tells the agency to make the deductions, or (b) if the customer does not specify any order of deductions, in the order the Deductions were processed by the Agency (see 12.3 see 11.7 of Centrepay Policy and Terms v3.0, ibid).
Why we consider insurers should offer Centrepay as a payment option

We acknowledge that improving the payment options available to customers will have some costs to industry. These will substantially be in upfront implementation costs, with ongoing costs being relatively less. We don’t disagree that there are few financial incentives for insurers to justify the investments to making such payment options available if they are viewed purely as a commercial decision. However, simply because it is ‘administratively burdensome’ or comes with a cost should not preclude insurers from taking action to improve the accessibility of insurance.

We also recognise that the demand for fortnightly or Centrepay payment options may not seem particularly strong when compared to the overall numbers of insurance customers. Consumer groups have consistently contended that there is a demand for fortnightly or Centrepay payment options, especially among low-income consumers. As at 30 June 2019, there were 646,865 Centrelink customers using Centrepay. This was 13.4% of the approximately 4.8 million Centrelink customers in 2018-19. This shows that the demand for Centrepay and/or fortnightly payment is not insignificant amongst the cohort of low-income consumers who may have the most difficulty in accessing and affording insurance.

Centrelink customers are not less likely to need, or purchase, insurance than non-Centrelink customers. While our 2019 consumer survey showed a lower rate of home ownership among consumers receiving Centrelink payments (67% compared with 72% for those not receiving payments), it did not show that home owners currently receiving Centrelink payments were any less likely to have home building insurance for their home than other home owners. That is, the rates were similar.

The survey did, however, show that people receiving Centrelink payments were less likely to have contents insurance (77%) compared with people not receiving payments (85%). When asked why they did not have contents insurance, cost was the key reason for 58% of Centrelink recipients, compared with 33% of residents generally. While we welcome Essentials by AAI as the only contents insurance policy facilitating payment by Centrepay, this finding shows the importance of having Centrepay available for home building insurance policies too. Currently there is no home building insurance product accepting payment by Centrepay.

Our survey also tested potential demand among Centrelink consumers for Centrepay. Given only one insurer is offering Centrepay, it is not surprising to us that our survey found that only 4% of respondents in northern Australia receiving income from Centrelink and who have insurance were using Centrepay to pay for it. However a further 10% of respondents receiving Centrelink payments with insurance said they would use Centrepay if it was available and another 19% said they didn’t know. It is difficult to conclude therefore, that there is not demand, or at least interest, in Centrepay among eligible customers with insurance.

Our main survey of northern Australian residents also found that people who were renting were more interested in using Centrepay than people who owned (or were paying off) their homes. Eight per cent of insured renters receiving income from Centrelink said they used it now and 18% were interested (compared with 3% and 7% respectively among home owners).

We note earlier findings made by the Brotherhood of St Laurence, when it found that 39% of surveyed low-income Australian households had a strong interest in Centrepay being made available to pay for insurance premiums.

Insurers have raised concerns that introducing fortnightly payment would lead to higher payment default rates. We accept the general proposition that increases in payment frequency could correlate

---

448 This is based on the fact that 4,833,314 Centrelink payment summaries, a document that sets out the amounts paid to a customer, were generated in 2018–19. We note that some Centrelink customers did not receive welfare payments on an on-going basis and might not be eligible to use Centrepay deductions for regular payments. Therefore the percentage of eligible Centrelink customers using Centrepay in 2018-19 was likely to be higher than 13.4%.
449 Brotherhood of St Laurence, Submission to the Natural Disaster Insurance Review, Improving access to insurance for low-income Australians, July 2011, p. 7.
with more opportunities for payment issues to occur. However, fortnightly payments means smaller payments, which could also make it less likely that a customer would default on a payment.

Compared to fortnightly payment by direct debit, Centrepay is widely considered to be more effective in minimising the risk of payment defaults.\textsuperscript{450} This is because Centrepay deductions are made from a customer’s Centrelink income before they receive the balance. The 2013 \textit{Independent review of Centrepay} noted that registered service providers received considerable quantifiable benefits from the use of the Centrepay because it improved cash flow, significantly reduced bad debt write-offs, and reduced costs associated with following up customer arrears.\textsuperscript{451}

We have seen evidence of insurers associating payment frequency with higher expected claim costs, as reported in section 15.3. We have a concern that insurers may, explicitly or implicitly, price discriminate against those customers who choose to pay fortnightly. In the absence of regulating surcharges, or insurers’ good practice, we are concerned that requiring insurers to offer fortnightly payments may lead to adverse outcomes for customers.

This concern is also true for Centrepay, however we expect that insurers will accept that a requirement to offer Centrepay is a corporate social responsibility that is ultimately in the public interest. Only customers receiving Centrelink income can access Centrepay, and this limits eligibility to customers who will more typically (but not necessarily) have a relative financial vulnerability. The incoming General Insurance Code of Practice 2020 contains a new industry commitment to supporting customers experiencing vulnerability and we consider offering Centrepay in a fair and reasonable way, is consistent with, and could sit as part of, this commitment.\textsuperscript{452} To this end, we also expect, and strongly encourage, that insurers would not treat a customer’s use (or potential for use) of Centrepay as a risk rating factor or otherwise take it into account, when determining a customer’s premium.

While we support insurers offering more flexible payment options, including both Centrepay and fortnightly payment options, we are only proposing to recommend that insurers should offer Centrepay. We consider that requiring Centrepay is a necessary step to improve insurance accessibility and affordability for consumers receiving a Centrelink income and who rely on, and use, Centrepay to budget and manage their necessary household expenses. Absent any regulatory requirement, insurers are unlikely to consistently commit to providing Centrepay as a payment option.

\begin{quote}
\textbf{Recommendation 15.2}

\textbf{Insurers should be required to offer Centrepay}

\textbf{Insurers should be required to offer Centrepay as a payment option for home and contents insurance products.}

The General Insurance Code of Practice 2020 contains a new industry commitment to supporting customers experiencing vulnerability. The provision of Centrepay is consistent with this commitment. Centrepay will improve the accessibility of insurance to low-income customers and is therefore in the public interest.
\end{quote}

\begin{itemize}
\item \textsuperscript{450} The objective of Centrepay is to assist customers in managing expenses that are consistent with the purposes of their welfare payments, and reducing financial risk by providing a facility to have regular deductions made from their welfare payments. See section 2 of the Centrepay Policy and Terms, v.3.0, effective 10 December 2018, available at \url{https://www.servicesaustralia.gov.au/organisations/business/services/centrelink/centrepay-businesses/how-manage-your-business-centrepay/policy-terms-and-guides}.
\end{itemize}
15.5 How insurers are currently required to help customers experiencing payment difficulties

Particularly compared with the regulated frameworks for managing customers experiencing payment difficulties and financial hardship in key services such as credit and banking (see box 15.1) and essential utilities, there are only minimal requirements for insurers to support insurance customers. These are set out in the General Insurance Code of Practice and they do not extend to help for customers experiencing difficulties in the payment of a premium.

Box 15.1: Hardship policies in credit and banking

There are several frameworks that govern financial hardship assistance for customers that are having difficulty paying their loans and debts. These frameworks are designed to provide rights to customers who could afford the loan at the time they took it out, but have since experienced a change of circumstances.

The National Credit Code (in Schedule 1 of the National Consumer Credit Protection Act 2009 (Cth)) generally applies to all customers who have a home loan, personal loan, car loan or credit card. Sections 72 to 75 of the code address how a creditor must respond when a customer requests a repayment arrangement on the grounds of financial hardship. This is called a hardship variation. A hardship variation may include, for example:

- extending the term of the loan and adding arrears to the end of the loan
- reducing or freezing the interest rate for a period of time
- waiving enforcement expenses
- accepting no payments for a period of time.

The Banking Code of Practice 2020 sets out the standards of practice and service in the Australian banking industry. It complements the law, and in some areas sets higher standards than the law. Chapter 39, 40 and 41 specifically set out banks’ commitments to helping to identify and manage payment difficulties, both in situations when restoring customer’s financial situation may be possible, and when it is not likely to be possible.

In addition to the National Credit Code and the Banking Code of Practice, banks operating in Australia have agreed to adopt the Australian Government’s hardship principles: A Common approach for assisting borrowers facing financial hardship. The hardship principles are designed to ensure credit providers treat individuals fairly and support them. The principles cover temporary assistance options, identifying borrowers in hardship, staff training, and timely and needs-based assistance.

The General Insurance Code of Practice

The General Insurance Code of Practice 2014 (2014 Code) came into effect on 1 July 2014 and remains in place until 1 July 2021. The General Insurance Code of Practice 2020 (2020 Code) was announced by the ICA in January 2020 and insurers and other industry participants who are signatories to the Code have until 1 July 2021 to complete their transition to the new Code.

---

A transition date of 1 January 2021 had previously been announced, however the ICA Board agreed to a six month delay (to 1 July 2021) due to the impact of COVID-19 on insurers and their customers. Although the 2014 Code remains in place, some key consumer provisions in the 2020 Code, including the vulnerable customers provisions (part 9) financial hardship provisions (part 10), were fast-tracked by insurers to take effect earlier. The timeline for full technical compliance for those parts is 1 January 2021 but insurers have committed to applying them by 1 July 2020.\(^456\)

The 2014 Code sets out the minimum standards that general insurers who have subscribed to the Code must meet when providing services to their customers. It also covers many aspects of a customer’s relationship with their insurer, such as buying insurance, making a claim, and the complaints handling process. The Code also addresses the issue of financial hardship.

Under the 2014 Code, assistance for people who are experiencing financial hardship is addressed in section 8. Section 8.2 explicitly states that financial hardship assistance does not apply to the payment of a premium. Rather, assistance is available to customers who owe an insurer money (for example when a customer has made a claim and needs to pay an excess), or when an insurer is seeking to recover money from an individual who might have caused loss or damage that the insurer has covered (for example an uninsured driver who caused a car accident).

In early 2017, the ICA began a review of the 2014 Code, undertaken in consultation with key stakeholders including the Code Governance Committee, the ICA’s Consumer Liaison Forum, ASIC and the then Financial Ombudsman Service. An interim report was released in 2017 and a final report in June 2018. The final report of the review of the 2014 Code made a number of recommendations to enhance protections for consumers experiencing financial hardship but it did not propose to substantially change the position that financial hardship support only applies to a consumer’s inability to pay the excess on their insurance claim and not the general insurance premium.\(^457\)

The new Code was formally launched in early 2020. Among other amendments, the 2020 Code presents a comprehensive plain-English rewrite, a new part and specific provisions dealing with supporting customers experiencing vulnerability (which includes support for customers affected by family violence) and new training for appropriate employees and agents to support the implementation of the financial hardship provisions.\(^458\) While the 2020 Code contains many welcome improvements, as previously stated, the financial hardship provisions (which are contained in Part 10 of the 2020 Code) continue to explicitly exclude financial hardship support in relation to the payment of premiums (paragraph 108). This is despite the new Part 9 of the Code explicitly identifying financial distress as a possible factor which may give rise to vulnerability.\(^459\)

As noted, insurers undertook to fast-track their commencement of Part 10 of the 2020 Code to 1 July 2020. Under Part 10, if a customer is experiencing difficulty paying their excess, the customer may apply to the insurer for financial hardship support. The application process set out in the 2020 Code allows an insurer to ask the customer for reasonable evidence of their financial hardship. Paragraph 114 of the 2020 Code sets out examples of the matters which the insurer will consider. The effect of paragraph 113 of the 2020 Code is that, if the insurer decides that the customer is entitled to financial hardship support, the insurer will work with the customer to consider suitable support, such as an extended payment due dates, paying the amount in instalments, paying a reduced lump sum amount, postponing one or more instalment payments for an agreed period or deducting the excess from the claim amount paid to the customer.

**How have insurers applied the hardship provisions of the 2014 Code?**

In early 2019 (and before the announcement of the 2020 Code), we asked insurers if they had any internal policies and practices that go beyond the minimum requirements set out in the 2014 Code. From the information we collected, it appeared that insurers are guided by their obligations under the

\(^{456}\) ibid.


Code. That is, all insurers have a payment assistance scheme in place for payment of an excess, and upon request by the customer, they will start the assessment process.

To access the payment assistance options, most insurers preferred the customer to discuss by telephone, although other options for contact were also mentioned, such as in a branch or web-chat. Consistent with the 2014 Code, insurers generally advised us that they asked customers to demonstrate, or at least explain, their genuine financial hardship. This was typically with reference to their employment, income and expenses, assets and liabilities and personal situation.

The response provided by Westpac suggested a customer may only need to provide a verbal explanation of their relevant circumstances to enable an assessment. In contrast, a different insurer mentioned a form that a customer had to complete and another discussed using a calculator to methodically assess if an adequate level of evidence had been provided. A fourth insurer indicated that it would never request more documentation from a customer than it needed (to assess if a customer’s request for payment assistance was genuine).

Insurers generally indicated that they work directly with the customer to arrange an appropriate option for payment assistance. Options considered include delayed payments, payments by instalment, and partial or full waivers or directly deducting the excess from the settlement. Westpac indicated that it generally deducts the excess directly from a settlement in any event, but can also waive an excess on a goodwill basis. Allianz explained that for financial hardship related to excess payments, many customers need help immediately and for these customers Allianz makes advanced payments to alleviate immediate hardship.

Suncorp discussed that, where financial hardship is identified, it will also consider referrals to Uniting Kildonan’s CareRing, which is a case-management service run by Uniting Kildonan. Suncorp pays a fee for the service and its financial hardship staff have received specialist training from Uniting Kildonan to help them communicate with customers, and refer them effectively.

QBE also discussed the training it provides to staff about how to identify customers who may be experiencing financial hardship, and how to discuss with these customers the option of payment assistance.

In relation to managing hardship (payment of excess) RACQ discussed its flexible approach which included consideration of the customer’s financial situation and a focus on negotiating a mutually satisfactory outcome through a range of financial accommodation options.

We did not request any updates to this information in 2020, however we expect that insurers will be guided by the requirements of the 2020 Code, which is not substantively different in this regard to the 2014 Code.

How do insurers deal with missed payments?

Unlike customers experiencing difficulty paying an excess, the Code does not impose any obligations on insurers to offer or provide assistance to customers experiencing difficulties paying their premium at the time it falls due. The Insurance Contracts Act 1984 (Cth) (Insurance Contracts Act), however, does require certain conditions to be met before an insurer can cancel an instalment contract for a missed payment.

We asked insurers to explain any policies and practices that they have, for example extensions and/or payment plans, that might allow a customer experiencing payment difficulties to maintain their insurance cover until their financial situation improves or they revise their budget.

Annual contracts of insurance

For annual policies, where a premium is due and payable in full by a set date, customers have no regulatory protections for a missed payment. We found that some insurers withdraw cover the day the customer misses their renewal payment but others offer up to 90 days of extra cover.

The Insurance Contracts Act requires the insurer to provide written notice no less than 14 days before a contract of general insurance is due to expire and indicate whether the insurer is prepared to negotiate to renew or extend the cover. This is usually done via letter or email. If the customer does not renew by the due date, most insurers follow up with a maximum of two letters or emails as a reminder. Insurers who withdraw cover immediately upon missed premium payment indicated that they at least meet the minimum requirements of the Insurance Contracts Act by providing the customer with notice of the upcoming renewal date.

In Chapter 18, we discuss that we do not consider that the 14 days’ minimum notice of a renewal quote gives customers sufficient time to have funds available to pay their renewal, particularly if a renewal is higher than a customer has budgeted for. We make a recommendation that all insurers be required to give no less than 28 days of notice, with a reminder sent no less than 7 days before expiry. We acknowledge some insurers, as a matter of good practice, already provide 28 days’ notice or longer (see recommendation 18.8).

Insurers who offer 90 days or more of extra cover are usually working through intermediaries such as brokers and offer the extra time to the intermediary so they can find a solution as the insurer does not work with those customers directly. Most insurers however sit somewhere in the middle.

**Instalment contracts**

The Insurance Contracts Act contains some customer protections for instalment contracts of general insurance. An instalment contract of general insurance is a contract that provides for the premium to be paid in seven or more instalments over a year. Instalment contracts typically provide for monthly payments but may include other frequencies such as fortnightly.

The Insurance Contracts Act imposes requirements that insurers must satisfy when considering cancellation of a contract or denial of a claim under the contract where a customer misses an instalment payment.

That Act provides that non-payment of an instalment gives rise to an insurer’s right to cancel an insurance contract. However, it also provides that cancellation for non-payment of an instalment will be void unless the insurer provides notice (and the notice period required is stipulated in section 59 of the Insurance Contracts Act).

However, not all instalment contracts require notice of cancellation. This is because the Insurance Contracts Act provides that the notice requirement does not apply where:

- the contract includes a provision for cancellation of the policy without notice
- the insurer seeks to rely on the provision when exercising its right to cancel
- at least one instalment of the premium has remained unpaid for a period of at least one month
- before the contract was entered into, the insurer clearly informed the consumer in writing of the effect of the provision.

The Insurance Contracts Act also provides that an insurer may not refuse to pay a claim, in whole or in part, because of non-payment of an instalment of premium unless all of the following apply:

- the contract includes a provision for limiting the liability of the insurer by reference to non-payment of an instalment of premium
- the insurer seeks to rely on the provision when refusing to pay a claim
- at least one instalment of the premium has remained unpaid for a period of at least 14 days
- before the contract was entered into, the insurer clearly informed the insured in writing of the effect of the provision.

---

461 Insurance Contracts Act 1984 (Cth), section 58(2).
462 Insurance Contracts Act 1984 (Cth), section 11(8).
463 Insurance Contracts Act 1984 (Cth), section 60(1)(d).
464 Insurance Contracts Act 1984 (Cth), section 63.
465 Insurance Contracts Act 1984 (Cth), section 62.
466 Insurance Contracts Act 1984 (Cth), section 39.
Because of these provisions in the Insurance Contracts Act, insurers’ product disclosure statements generally contain provisions to the effect that an instalment contract may be cancelled if a monthly instalment is overdue for one month, and that a claim may be refused if a monthly instalment is overdue for 14 days.

In practice, many of the insurers active in northern Australia provide multiple payment reminders when a customer misses a premium payment and would attempt to collect two instalments of premium on the following instalment due date. Failing that, most insurers would give the customer one more notice to pay the outstanding premiums before issuing a notice of cancellation to cancel the customer’s contract.

Two brands have a different system in place where, if a customer misses four payments within a 12 month period, over multiple policies, the customer’s instalment policy is converted to an annual policy.

Many of the insurers in northern Australia advised us they can defer an instalment payment at the customer’s request, but these payment extensions are generally no more than 14 days or the instalment is deferred to the next instalment due date.

No insurer charges fees for late payment. However third parties involved in the processing of payments such as banks and financial institutions may charge a dishonour fee for an overdrawn account.

When we asked in 2019, several insurers offered examples of good-practice initiatives they have offered to support customers who may be experiencing payment difficulties (see box 15.2). This information request preceded COVID19 and we discuss insurers’ responses to COVID-19 in the following section.

Box 15.2: Examples of good practice in supporting customers with premium payment difficulties

RACQ advised us that during declared catastrophic events, it has the discretion to allow customers in affected postcodes extensions of up to three months for payment of annual and monthly premiums. They inform their customers of this extension by email, post or if that does not work, try phoning their customers instead. Even if they cannot contact their customers, the time extension remains in place.

Westpac advised it offers customers experiencing financial hardship a 10% discount. The discount applies until the end of the current period of insurance, however the customer may re-apply for the discount on renewal.

CommInsure, as part of its standard procedure, considers if the customer’s insurance cover is appropriate for the customer. It is also able to, within limits, reduce or write off premium based on individual circumstances, including when a customer is unable to pay their premium.

Suncorp mentioned that it suspends collections over the Christmas period as this is the period when people are more likely to experience financial hardship. Several Suncorp brands also offer a ‘health check’ of a customer’s policy which involves checking with the customer that all the details of the policy are correct (such as the sum insured) and ensure the customer is ‘not paying too much’.

COVID-19: a special case of payment difficulties

Our work to understand how insurers currently do, and how we consider insurers should, support customers experiencing premium payment difficulties has been in progress since the commencement of the inquiry. The COVID-19 crisis, which emerged in early 2020, has challenged insurers around the world to respond to the rapidly evolving environment and the associated ‘shock’ to the financial circumstances of customers.

We share stakeholders’ concerns that the increase in customers experiencing financial hardship and unable to make monthly payments or renew their policies, will lead to an increase in non-insurance rates and other declines in cover (through reduced sum insured values and higher excesses). In May 2020, the Consumer Policy Research Centre (CPRC) commissioned a monthly nationwide survey to examine
the impacts of COVID-19 on consumers. The survey found that consumers are increasingly concerned about their ability to pay for general insurance (31% of consumers in July, compared to 25% in May).467

Unlike the package of relief measures developed collectively by industry participants to support small and medium enterprise (SMEs), there was no comparable industry-led relief package for residential home and/or contents insurance customers.468 Instead, we have observed insurers responding on their own terms to support their customers, with often the only public messaging being one of encouraging consumers suffering financial hardship to contact their customer service centres.

In late April, Suncorp and its brands GIO, AAMI and Apia announced they would offer flexible premium options, including discounts of up to 20% or 3-month premium waivers, to home and car insurance customers experiencing financial difficulty caused by COVID-19.469

Also in late April, IAG also announced a package of support measures for NRMA, SGIO and SGIC home and motor insurance policyholders, known as the Help Program.470 According to IAG, the Help Program provides ‘tailored solutions’ to suit individual customers such as access to premium reductions and reduced excess amounts in the event of a claim. Other measures include the flexibility to change from annual to pay-by-the-month premium instalment plan (at no additional cost) and waived cancellation and administration fees for customers who cancel their policies.

Youi announced that, as of 1 June 2020, it would provide a 10% refund on home insurance premiums for new and existing customers for a 3-month period (provided customers are spending more time at home due to COVID-19.471

Other insurers may have offered their home and/or contents insurance customers some premium relief options that were not announced in media or broadly publicised.

ASIC’s expectations of insurers

On 14 April 2020, ASIC released an update on its regulatory work and priorities in light of COVID-19. In doing so, ASIC also conveyed its overall expectations of regulated entities during this time. Namely, that despite the challenges posed by COVID-19, ASIC expected entities to treat customers fairly, avoid adding further financial harm or burden to consumers, and act to maintain the integrity and efficiency of markets.472

On 27 April 2020, ASIC wrote directly to general insurers to expand on those expectations as they related to general insurers. ASIC’s letter reinforced that it expected insurers to consider their conduct in light of the current circumstances and to act in a fair, professional manner that is in line with the duty of utmost good faith.473

ASIC’s letter went on to say that insurers should be flexible in dealing with consumers’ specific circumstances. Where consumers were no longer able to pay premiums due to reduced income,


468 On 9 July 2020, the ACCC granted authorisation until 31 December 2020 to allow participating insurers and brokers to implement any relief measures they offered to policyholders whose policies expire up to and including 30 June 2020. Further information, including the ACCC’s full Final Determination document can be found at https://www.accc.gov.au/public-registers/authorisations-and-notifications-registers/authorisations-register/suncorp-group-limited-on-behalf-of-itself-and-other-providers-of-insurance.


insurers should consider how they can best respond to this issue in order to help consumers continue to maintain key insurance coverage. This might include, where appropriate and reasonable, measures including premium ‘holidays’, deferrals, or reductions for a reasonable period of time.

ASIC has stated that it expects insurers to handle insurance claims with utmost good faith and to deal with complaints genuinely, promptly, fairly and consistently. ASIC has also indicated its expectation that insurers communicate proactively, clearly and accurately with consumers about their insurance cover, recognising the rapidly changing situation they are facing.

15.6 Why should insurers provide more support to customers experiencing premium payment difficulties?

Any household can experience payment difficulties at any time, for example due to a sudden change in circumstance or an unexpected expense. After targeted consultation with stakeholders this year, and informed by the findings of our inquiry to date, we have reached the view that insurers should be required to provide support to customers experiencing short-term payment difficulties. We are concerned that, in the absence of any support, once a customer makes a decision to cancel their insurance (or it is cancelled by their insurer for non-payment), they may not move to resume it if their financial situation improves, thus risking significant financial loss if affected by an insurable event. As we have discussed throughout our report, high levels of private insurance are in the public interest.

Our recommendation is not intended (or capable) of solving insurance accessibility for consumers experiencing chronic and long term financial hardship. Rather, we intend for there to be a requirement for insurers to provide payment support to help customers hold their insurance through transient financial difficulties. Notwithstanding their strong advocacy for more affordable insurance generally, consumer groups agreed with us that households with chronically low incomes are more likely to have forgone insurance already.

We consider financial support for customers experiencing chronic or longer-term payment difficulties is best achieved by governments considering our existing recommendations (including on stamp duty and making it easier for consumers to find better suited products), as well as our findings in Chapter 8 about the potential suitability of subsidies.

In this section we set out our key considerations for making this recommendation.
**Recommendation 15.3**

**Help for customers experiencing premium payment difficulties**

Insurers should be required to provide short term support to their current and renewing customers experiencing payment difficulties at the time their home and/or contents premium falls due.

The framework should include the following options:

- a policy health check to allow the customer to consider if there are amendments they could reasonably make to their policy to reduce their premium
- reduced or waived surcharges for paying monthly (and other instalments that are more frequent than annual)
- premium waiver
- premium payment deferrals for up to 4 months without consequences for coverage
- part payment of a premium with the remainder of the premium deferred for up to 4 months
- a payment plan to allow the customer to repay their arrears.

All renewals and notices of cancellation for non-payment of instalments should mention the availability of payment assistance. Insurers should have easy to find information on their website about the premium payment help that is available and how to access it. Insurers should undertake training and education for staff to implement payment difficulty assistance measures with compassion and consistency.

**Previous considerations**

Whether or not insurers should be required to offer support for customers experiencing premium payment difficulties is not a new issue. It was recently considered by the industry itself through its 2017–19 review of the 2014 General Insurance Code of Practice (the Code of Practice review).

Consumer groups that we spoke to through our targeted consultation in 2020 advised that they have consistently expressed their support for premium payment support, including through submissions to the 2014 Code of Practice Review.

In a joint submission from 10 peak consumer groups (collectively calling themselves ‘Consumer Representatives’) to the Code Review’s interim report, Consumer Representatives noted the report has failed to address an important aspect of the financial hardship standards under the Code—that is, the limitation of these standards to only insureds and third party beneficiaries who either owe money (clause 8.1(a)) or individuals seeking recovery from, for damage or loss cause by them to an Insured or Third Party Beneficiary (clause 8.1(b)).

They went on to say a number of submissions to the initial phase of the review brought up the need to remove clause 8.2 (which excludes the payment of premiums under an insurance policy from the financial hardship standards) and include commitments to assist policyholders experiencing financial hardship. They argued that opportunity should be given for consumers in financial hardship with an instalment payment plan to enter into a financial hardship arrangement to avoid cancellation of policy. Equivalent obligations have existed in relation to banking and energy products for some time.

The Code Governance Committee stated in its submission to the Code Review’s interim report that it supports an approach that strengthens the Code’s financial hardship standards, requires code subscribers to proactively identify and assist consumers who are in financial hardship, and requires code subscribers to respond to express or implied requests for financial hardship assistance. In relation to providing options for retaining the policy where a customer says they cannot meet their premium payments, the Committee recommends that the ICA extends the proposed options to all vulnerable

---

474 References to clauses of the Code in stakeholder submissions refer to the 2014 Code.
consumers in financial hardship (not only those experiencing family violence) who are entitled to access the protections outlined in section 8 of the 2014 Code (Financial Hardship standards).

Support for premium payment difficulties is seen as an issue of social equity

Good Shepherd Australia New Zealand poignantly summarised in a meeting with us that ‘insurance is a painfully boring subject until you realise it is about people’s lives’. The sentiment was echoed throughout our consultation with consumer groups, who discussed that the challenge of payment difficulties in insurance must be solved, and that ultimately, it is about social equity and fairness.

While home and contents insurance may not be characterised as being of equivalent necessity to day-to-day life as essential services like electricity and water, insurance represents a crucial protection for what is likely to be a consumer’s most important and valuable financial asset. Our 2019 consumer survey confirmed this, finding that most residents who had home building insurance considered it to be essential (70%), or at least very important (23%).

Consumer groups generally discussed with us the need to reframe what insurance is; to see it as being about security and wellbeing, and in that sense, it is essential. A home and its contents satisfies an essential need for shelter and it is where we get most of our needs. Uniting Kildonan discussed that maintaining insurance is not just about protecting against the loss of property, but can ultimately be about protection of lives, suggesting that uninsured households are more motivated to stay and defend their property at a time of great risk.

Uniting Kildonan commented that there has always been a sense of deserving and non-deserving in the hardship space. Most conversations we had with consumer stakeholders discussed that COVID-19 is normalising financial difficulty; showing that unforeseen financial difficulties can affect anyone, not just those who are perceived to not be not careful with their budgeting. Consumer groups welcomed some initiatives they had seen insurers offer to respond to their customers during COVID-19, discussing their hopes and/or expectations that insurers should continue to provide measures of assistance when the crisis is over.

In chapter 12, we reported on the findings of our consumer survey, including about the financial impact of being uninsured. Over one-quarter (26%) of residents who were uninsured when they experienced an insurable event said it had been extremely or very difficult for them to cover the cost of fixing or replacing what had been lost or damaged. A further 15% described it as fairly difficult.

A regulatory obligation provides for consistency

Most consumer groups observed that assistance offered voluntarily by industry to customers, even during a catastrophe, tends to be limited and inconsistent. Consumer groups typically discussed that it is difficult to get an industry-wide commitment to provide relief for customers experiencing payment difficulties. They shared the view that without a regulatory obligation, there will generally be at least one insurer who chooses to not offer support, even if others are prepared to do it.

The lack of consistency, and similarly lack of transparency, of any voluntary measures makes it confusing for customers. While some insurers may be willing to provide useful assistance if asked, and we have seen this to be the case throughout our inquiry, the absence of any public commitment makes it more likely that customers will either accept they must find another way to pay their insurance bills on time, or let their insurance lapse.

As a market and consumer regulator, we typically advocate for innovative service offerings in the consumer interest. However we do not consider it likely that insurers would compete to offer the most helpful support to their customers at times of financial difficulty. That said, several consumer groups discussed that providing a customer with a positive experience at a time of need would engender the sort of loyalty that ought to be perceived as valuable by an insurer.
Concerns, costs and challenges of a requirement for insurers to support customers experiencing payment difficulties

The implementation of a payment difficulty support framework is not without costs and challenges, and we have taken these concerns into account when developing a proposed framework.

The cost of providing support will be passed on to other customers

Insurers will invariably incur some costs in developing, implementing and maintaining a premium payment difficulty framework. We recognise this, however we note that our recommendation does not propose insurers provide any extended premium waivers or other substantial and enduring discounts that would result in a much higher cost burden. The short term nature of the framework will also limit any accrual of premium deferrals such that if a customer does not meet the terms of a payment plan and has their insurance cancelled, the unrecovered premium will be limited in size.

While not dismissing cost as a valid concern, we also discussed with a number of stakeholders that the take-up of payment difficulty assistance in insurance would not be as widespread, nor with comparable longevity, as in essential service industries. This is because consumers experiencing chronic financial hardship would be unlikely to be able to afford to buy insurance, and temporary assistance will not solve this.

The costs insurers incur in providing payment assistance will ultimately be shared by other insurance customers in the form of higher premiums. This will be the case in all industries that support payment difficulties. But in the case of insurance, the community would also share the burden of non-insurance through public and charitable assistance when a disaster occurs so we are not persuaded by this concern.

The cost of providing support may be recouped from the customer who receives it

Insurance premiums are set at an individual customer level and are based on perceived risks. In this way, premiums are unique, variable and not regulated. This is quite different to the more uniform and transparent pricing typically based on consumption in those essential service sectors that have regulated payment difficulty frameworks.

In considering options for a payment difficulty framework, we were concerned that insurers may be motivated to price financially risky consumers out of the market or to recoup costs of providing them with support. We consider that this risk increases the longer the term, and the more generous the support, that an insurer was required to provide.

We welcome insurers’ commitments to customers experiencing vulnerability generally through improvements announced in the 2020 Code. Specifically, we note that the new Part 9 includes financial distress as factor which may give rise to vulnerability. We encourage insurers to consider support for customers experiencing payment difficulties as complementary to other commitments they have made as signatories to the Code and not seek to disadvantage those customers who request support.

We would expect, and strongly encourage, that insurers would not treat a customer’s use (or potential use) of payment difficulty support as a risk rating factor or otherwise take it into account when setting a premium for the customer. This is consistent with our views on the offering of Centrepay to eligible customers who may choose to take up such an option.

The prudential and regulatory requirements

In terms of prudential requirements, insurers must hold sufficient capital in reserve to pay claims. Providing payment assistance can add to the credit risk insurers bear and the uncertainty as to the adequacy of the premium pool, which in turn may impact on the premium the insurers would charge. We recognise this, but we do not consider the financial burden on insurers of providing short term assistance to a potentially very small percentage of customers at any one time to be a material issue under the existing requirements.

---

We also recognise there will be some additional complexities to consider for the industry and the regulator of this recommendation, such as the appropriate form of a payment plan when an insurance policy is typically only a 12-month contract.

**We recommend that a payment difficulty framework should include the following elements**

We propose recommending that a payment difficulty framework should include the features set out in table 15.4. The core element of assistance is the offering of some meaningful financial support (whether a discount, waiver or premium deferral), supported by a policy health check to ensure a customer is paying no more than necessary for their insurance relative to the coverage and benefits they require.

**Table 15.4: Proposed features of a premium payment difficulty framework**

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy health check</td>
<td>This would involve checking:</td>
</tr>
<tr>
<td></td>
<td>• whether all discounts that a customer may be eligible for have been considered</td>
</tr>
<tr>
<td></td>
<td>• whether the customer’s sum insured is likely to be a reasonable estimation of the replacement value of their property. Note the intention is to ensure the customer is not over-insured, but we acknowledge the risk of this identifying underinsurance too.</td>
</tr>
<tr>
<td></td>
<td>• whether the insurer offers other products that may meet the customer’s needs and budget that the consumer could consider. This should include considering the cost impact of removing optional extras from an insurance policy, such as accidental damage.</td>
</tr>
<tr>
<td></td>
<td>• the cost impact of various excess choices made by the customer.</td>
</tr>
<tr>
<td>Reduced surcharge for monthly instalments</td>
<td>Reduce or waive instalment surcharges, for up to 4 months.</td>
</tr>
<tr>
<td>Premium waiver</td>
<td>A full waiver or meaningful discount off the due payment.</td>
</tr>
<tr>
<td>Premium payment deferral, part payment and payment plans</td>
<td>Deferral of a premium payment without consequences for coverage unless it is obviously not in the customer’s interests to do so:</td>
</tr>
<tr>
<td></td>
<td>• Deferral for an instalment policy should be considered for up to 4 months, though insurers could choose to offer longer, provided it is in the customer’s interests.</td>
</tr>
<tr>
<td></td>
<td>• Deferral for an annual policy should be considered for up to 4 months.</td>
</tr>
<tr>
<td></td>
<td>Insurers should accept a part-payment with deferral of the remaining part.</td>
</tr>
<tr>
<td></td>
<td>Insurers should offer their customer a payment plan for payment of the outstanding deferred premium.</td>
</tr>
<tr>
<td>Communicate to customers that payment help is available</td>
<td>Renewal notices, and notices of cancellation for non-payment of an instalment contract should advise that premium payment help is available. Information should also be published in an ‘easy to find’ webpage, such as a link accessible from the home page or a bill paying page.</td>
</tr>
<tr>
<td>Train and educate staff to implement with compassion and consistency</td>
<td>Insurers should train and educate staff to develop payment arrangements with customers in a compassionate manner and with reasonable consistency. Ideally, insurers would have a team, or dedicated staff, to manage their payment difficulty obligations.</td>
</tr>
</tbody>
</table>

**Policy health check**

A ‘policy health check’ is a sensible first response to a request for payment help. While this does not necessarily provide direct financial support to the customer, it may help them to identify optional elements of their policy that they may be able to forgo in the interest of keeping their insurance. Many customers may not have realised the impact of increasing the excess on their premium. This information may be available to the customer online, but discussing verbally by phone would be more accessible to customers.

Uniting Kildonan raised concern with us that insurers should not encourage customers to take on a higher excess because in their experience, customers cannot afford to pay it at the time of a claim. This concern is valid, but we consider the cost of being uninsured if a disaster occurs would exceed the burden of a high excess (and the Code does provide hardship support for an excess).
Several insurers already recognise providing general ‘policy health’ advice as important in their relationship with the customers. For example, IAG noted that its retail brand, NRMA, offers services for online appointments that can be booked in English, Mandarin or Cantonese and hearing-impaired services. As part of its response to COVID-19, Allianz said it encourages its customers to ring a hotline for a five-step check-in over the phone where it will assist customers to review their details, excess, cover and payment frequency and making necessary changes to support its customers experiencing financial difficulties.

Policy health checks represent good practice and all customers should engage with the details of their policy regularly. We have made several recommendations that would facilitate this. Our recommendation 18.4 would require insurers to undertake a check of sum insured as standard practice for all customers at renewals. Our recommendation 18.6 would require insurers to disclose the impact on a premium of optional inclusions for all customers at renewal and at the time of a new quote.

**Reduced surcharges for monthly instalments**

Paying in instalments is a typical strategy to budget and manage cash flow, but for many insurance customers, the extra cost for doing so (through surcharges or loadings) can be significant. For customers experiencing payment difficulties, insurers should consider a reduced surcharge, if one is imposed, for monthly instalments. One insurer advised this is its current business practice for some of its brands, and they support it this being embedded in the insurance industry as a general practice. Another insurer also considers it among the options it could discuss with a customer to alleviate their immediate concerns.

Some insurers already do not impose a surcharge for monthly instalments (see table 15.1).

**Premium waiver**

Consumer groups have advocated for insurers to offer a premium waiver, either during our consultation or through other public processes. We consider a premium waiver represents very good practice and we encourage insurers to consider a waiver or meaningful discount off a due payment to allow the customer to meet their obligation and ideally resume a normal payment cycle immediately thereafter. Two insurers have told us that under their current practices they could waive one month’s premium in some financial hardship situations.

**Premium payment deferral, part payment and payment plans**

As an alternative to a premium waiver, insurers could consider a premium deferral. For an instalment contract, and where a customer has a payment history with an insurer, the insurer should offer a deferral of up to 4 months. It is unlikely to be in a customer’s interest to allow a debt to continue to accumulate beyond four deferred instalment payments. For example, if a customer in northern Australia had deferred four monthly payments of a combined home and contents policy, this could result in a debt in the order of $833. Where a customer who typically pays annually is experiencing difficulty at the time their renewal falls due, an extension should also be considered for that customer to enable them time to make the annual payment and avoid any additional cost of paying by monthly instalments if their insurer imposes a surcharge.

Where a customer considers they have a capacity to make a part-payment towards a due premium payment, we encourage the insurer to accept a part-payment with deferral of the remaining part.

While insurers did not necessarily disagree with the concept of premium payment extensions (with one insurer noting this greatly assists customers by enabling flexibility, certainty and potentially avoiding administrative fees and/or surcharges for having to change payment frequency), insurers generally expressed concern with a requirement that they offer a deferral beyond the requirements of late payments in the Insurance Contracts Act and other grace periods they might currently provide.
Notwithstanding that some insurers have offered special initiatives of this kind for COVID-19, insurers typically highlighted a requirement to do so would raise complexities if claims were lodged and premiums unpaid. We note that any such complexities would already arise where insurers have deferred payments for customers under existing arrangements, including those related to COVID-19. In any event, we note that insurers may be able to deduct any outstanding premiums from the settlement of a claim. Some insurers also suggested that providing support to customers experiencing payment difficulties may not leave a sufficient pool of premium to pay out large claims. We consider that the support recommended here would not result in a significant pool of customers having a significant amount of deferred premium that would threaten an insurers’ ability to meet its obligations, even at a time of a large scale disaster.

Communicate to customers that payment help is available

Experiencing payment difficulties and asking for help are often confronting for some customers. An important part of our recommendation is that insurers must make it easier for customers to be aware that they have options if they are experiencing payment difficulties. Insurers should be required to ensure that all renewal notices, and notices of cancellation for non-payment of an instalment contract, advise that premium payment help is available. Information should also be published in an ‘easy to find’ webpage, such as a link accessible from the home page or a bill paying page of the insurer’s website.

This was particularly important to consumer groups who said they want to see, as a starting point, insurers make public commitments, where they acknowledge customers may face payment difficulties and invite customers to seek help. They drew comparisons to commitments seen in the banking and energy sectors, for example.

Several insurers specifically acknowledged the importance of ensuring customers are aware that assistance is available and the procedures involved in obtaining such assistance, offering support for the publication of information for customers experiencing payment difficulties and financial hardship on websites. One insurer added the focus should be on the range of options that are available to customers, including but not limited to changing premium levels, contacting their service staff, and discussing payment options available. Another said that while it didn’t currently have a ‘one click’ functionality on its website, it welcomed the suggestion.

Training and education for staff

Insurers should train and educate staff to proactively identify customers experiencing payment difficulties and develop payment arrangements with customers in a compassionate manner and with reasonable consistency. Ideally, insurers would have a team, or dedicated staff, to manage their payment difficulty obligations.

Giving effect to the recommendation

The payment difficulty framework could be implemented through legislation or the General Insurance Code of Practice. Although the Code is currently a voluntary industry code that is established by industry, members represent about 95% of total premium income written by private sector general insurers. The Code states that it is intended to be a positive influence across all aspects of the general insurance industry including product disclosure, claims handling and investigations, relationships with people who are experiencing vulnerability and financial hardship (but currently excluding premiums), and reporting obligations. The Code also acknowledges industry must always strive to meet the community’s evolving expectations for how it should support individuals and small businesses. A commitment to providing short term support to customers experiencing payment difficulties is consistent with such objectives.

However if industry is resistant to amending the Code, a legislative amendment should be considered.
16. Challenges facing strata insurance markets in northern Australia

Key points

- Strata insurance availability and affordability concerns appear to be most prominent for a small subset of strata properties in northern Australia, based on their size, location, age, and construction material. For these properties, strata insurance can be very expensive with more limited availability.

- Competition for strata properties with 11 or more dwellings and with sums insured over $5 million is soft, especially for properties with a higher exposure to cyclone and water damage risk. There are fewer available insurers and insurer intermediaries for these properties, and those remaining appear to be reducing their exposure to these risks by increasing underwriting restrictions on the type and location of strata property they are willing to insure.

- Soft competition for these properties has not coincided with higher profits for insurers and insurer intermediaries supplying strata insurance products in northern Australia over the 12 year period to 2018–19. Instead, insurers and insurer intermediaries appear to be reducing exposure and increasing premiums for properties of certain sizes to address poor profitability results.

- The main claim causes driving poor profitability in the region result from storm, cyclone and water damage events. Water ingress from storm and cyclone events appears to be a significant driver of cost for strata properties in northern Australia, particularly large strata properties. While water damage claims are smaller, the frequency in which they occur is a significant driver of cost.

- Mitigating against these types of claims is one measure to improve strata insurance affordability and availability. Regular inspection and maintenance of the grounds and buildings in a strata property, and having in place a comprehensive cyclone preparation plan to enact when a cyclone approaches, helps reduce the impact of cyclone and storm events.

- The North Queensland Strata Title Inspection Program is also useful in promoting resilience awareness among strata property owners, and providing body corporates with strategies and recommendations to improve resilience. The program could be used as a model if other states and territories are considering similar inspection programs.

- We acknowledge that for strata properties currently experiencing acute insurance availability or affordability issues, the above measures will not address these issues in the short-term. We consider measures to relieve acute availability and affordability pressures in chapter 8.

During the inquiry, we received an increasing number of reports from concerned strata managers and strata residents of being unable to secure residential strata insurance from domestic insurers, or at a significantly increased premium compared to previous years and with limited choice.

Our analysis of market structure, prices, costs, profits and competition in the first part of this report has generally considered strata insurance as a whole. We recognise that the experiences of body corporates can differ significantly between different types of strata properties. As such, we have undertaken a closer examination of strata insurance markets in northern Australia to better understand the challenges and market dynamics facing different types of strata properties.
Focus area 9

Closer examination of the challenges facing strata insurance markets in northern Australia

Recent issues affecting strata developments have added to concerns about the affordability and availability of insurance, particularly for larger strata complexes. We will further develop our understanding of the challenges and market dynamics facing different types of strata properties.

During 2020, we will develop a more complete view of strata insurance provided through insurer intermediaries and alternative forms of insurance (including commercial insurance). We will also draw a clearer distinction between different types of strata properties and the issues that they face.

16.1 Structure of strata insurance markets in northern Australia

Supply of strata insurance in northern Australia

Strata insurance is typically supplied by the insurer to the consumer through various intermediaries, which can add cost and complexity to the product, and may give rise to conflicts of interest.

Insurers

As at 2020, there are six domestic insurers who underwrite the vast majority of strata insurance in northern Australia. These are:

- AAI Limited (Suncorp)
- Allianz Australia Insurance Limited (Allianz)
- Chubb Insurance Australia Limited (Chubb)
- Insurance Australia Limited (IAG)
- Liberty Mutual Insurance Company (Liberty Mutual)
- QBE Insurance (Australia) Limited (QBE).

Suncorp supplies strata insurance directly to the consumer, while the other domestic insurers supply via an insurer intermediary. Liberty Mutual (via Sure Insurance) offers a residential strata insurance product in north Queensland only. QBE (via Steadfast owned intermediary CHU) will only offer strata insurance to properties in north Queensland if they are managed by a strata manager affiliated with the Prudential Investment Company of Australia (PICA).

Suncorp strata insurance is limited to properties with 10 or fewer dwellings and with a sum insured of up to $5 million, while Liberty Mutual (via Sure Insurance) is currently limited to properties with a sum insured of up to $5 million. For strata properties in north Queensland with over 10 dwellings and over $5 million sum insured, there are two fewer available residential strata insurance suppliers than for strata properties below those amounts.

Insurer intermediaries

Strata insurance is most commonly distributed via insurer intermediaries. The main insurer intermediaries supplying strata insurance in northern Australia are:

- CHU Underwriting Agencies Pty Ltd (CHU)
- Longitude Insurance Pty Ltd (Longitude)

---

479 RACQ supplies a small number of residential strata insurance products for properties below 10 dwellings. In 2018–19 RACQ had approximately 160 strata policies in north Queensland.

480 The supply of strata insurance via intermediaries is considered in more detail in the following section.
Insurer intermediaries tend to be independent, or owned by groups other than the six domestic strata insurers. The main exception is SUU and TIO, which are owned by IAG and Allianz respectively.

Table 16.1 shows the ownership arrangements for the main insurer intermediaries operating in northern Australia strata markets, including which insurer underwrites for each insurer intermediary.

### Table 16.1: Ownership arrangements for main insurer intermediaries

<table>
<thead>
<tr>
<th>Intermediary</th>
<th>Insurer</th>
<th>Intermediary ownership arrangement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sure Insurance</td>
<td>Liberty Mutual</td>
<td>Independent intermediary</td>
</tr>
<tr>
<td>SUU</td>
<td>IAG</td>
<td>Wholly owned subsidiary of IAG</td>
</tr>
<tr>
<td>CHU</td>
<td>QBE</td>
<td>Owned by Steadfast Group (a broker group)</td>
</tr>
<tr>
<td>SCIA</td>
<td>Allianz</td>
<td>Independent intermediary</td>
</tr>
<tr>
<td>Longitude</td>
<td>Chubb Insurance and Swiss Re International SE Australia Branch</td>
<td>Longitude acts as an authorised representative of Austagencies Pty Ltd which is a subsidiary of AUB Group (a broker group).</td>
</tr>
<tr>
<td>TIO</td>
<td>Allianz</td>
<td>Owned by Allianz</td>
</tr>
</tbody>
</table>

Source: Insurer intermediary websites.

Insurer intermediaries are most commonly empowered to act on behalf of the insurer through a ‘binding authority’ distribution agreement. A binding authority authorises an insurer intermediary agency to market, underwrite, settle claims and administer insurance policies on behalf of a general insurer.

Insurer intermediaries typically maintain a large degree of autonomy in making supply and underwriting decisions on behalf of the insurer, with their own systems, processes, guidelines and controls set independently from the general insurer for the end to end process of underwriting insurance. Although insurers may place limits on the amount of business the insurer intermediary is able to write in certain locations, or limits on the sizes of properties the insurer intermediary may write.

Using an insurer intermediary usually provides a more cost effective approach for the insurer to supply strata insurance. The insurer intermediary utilises its specialised expertise, resources and network to underwrite and market strata insurance products, and handle claims, on behalf of the insurer. In return, the insurer intermediary will typically receive a commission from the insurer.

### Developments in northern Australian strata insurance markets

During the course of the inquiry, we have seen a number of changes to the insurers and insurer intermediaries supplying strata insurance in northern Australia.

Towards the end of the 2018-19 financial year, Suncorp sold its Resilium brand, and ceased underwriting Longitude Insurance via its Vero brand, thereby exiting the intermediary market.

---

481 The information in the table was drawn from insurer intermediary websites, all viewed on 19 October 2020:


In 2019–20, Brooklyn Underwriting (underwritten by XL Insurance Company SE) ceased supplying its Tropical Strata product in northern Australia, and exited residential strata insurance markets altogether (other than to service existing policies and claims).\footnote{Brooklyn Underwriting, Tropical Strata, \url{https://www.brooklynunderwriting.com.au/products/tropical-strata.html}, viewed 28 September 2020.}


**Consumer intermediaries**

There are two main types of consumer intermediary in the supply of residential strata insurance products; insurance brokers and strata managers. Due to the heavily intermediated nature of strata insurance markets, body corporates (via a strata manager) will generally need to engage an insurance broker to access residential strata insurance products from insurer intermediaries. Accessing residential strata products in this way is required in large part due to the complexity of assessing and underwriting large strata properties. Insurance brokers better understand the insurance arrangements required to ensure a strata property is adequately insured than members of a body corporate or the strata manager. Insurance brokers are also better placed to provide relevant and accurate information to the insurer intermediary, in both the underwriting process as well as any claims handling processes. As such, the vast majority of residential strata insurance products are distributed via insurance brokers.

Smaller strata buildings (building with 10 dwellings or less) tend to be less complex and as such there is less need to engage the specialist skills of an insurance broker. For these types of strata properties, there are direct market offerings that strata managers or body corporates are able to access without engaging the services of an insurance broker.

In order to realise benefits that come with size and scale, such as enhanced buying power which allows them to better negotiate on policy terms and conditions with insurers, many insurance brokers join broker member groups. As discussed in chapter 2, the two largest broker member groups are Steadfast Group and AUB Group. These two broker member groups also own, or have financial interests in, underwriting agencies backed by the insurers. For example, CHU is owned by Steadfast Group and Longitude is owned by a subsidiary of AUB Group.

As discussed in chapter 19, insurance brokers are generally paid a form of commission for their services. Commissions tend to be a percentage of the base premium and are paid to the insurance broker by the insurer or insurer intermediary they place the insurance policy with. As residential strata insurance product premiums are generally much higher than home and contents insurance products, insurance brokers tend to earn a much larger commission from residential strata products than from home and contents products, as indicated in figure 16.1.
Commissions that are calculated as a percentage of the base premium result in properties with a higher exposure to risk paying more for the services of an insurance broker than less risk exposed properties. In this regard, commissions can have a compounding effect on affordability concerns. However, due to increasing affordability concerns, some brokers are moving to fee for service models for clients located in high risk areas in order to reduce the retail premium.

Strata managers, as agents of the body corporate, generally arrange strata insurance on behalf of the body corporate, most commonly by engaging the services of an insurance broker. Generally, strata managers are remunerated by the body corporate for the services they provide. However, in the arranging of insurance, many strata managers have commission sharing arrangements with insurance brokers. Strata manager remuneration is discussed further in chapter 19.

We consider commissions paid to insurance brokers by insurers or insurer intermediaries and commission sharing arrangements with strata managers can give rise to unacceptable conflicts of interest, such as insurance brokers and strata managers prioritising insurers or insurer intermediaries with higher commission rates rather than better value retail premiums. Strata managers are also highly influential in the supply of residential strata insurance in their capacity as the arranger of insurance for body corporates. Under current remuneration arrangements there exists an incentive for strata managers, along with insurance brokers, to only provide body corporates with quotes from a select group of insurers or insurer intermediaries based on the commission component rather than the retail premium. Therefore an insurer or insurer intermediary that reduces or removes the commission component from a retail premium may be limited in its ability to increase market share.

In order to remove this conflict of interest, we recommend extending the ban on conflicted remuneration to insurance brokers, and for strata managers to be remunerated by the body corporate only. These recommendations would remove the ability of insurance brokers to have in place commission sharing arrangements with strata managers. We consider that if strata managers were remunerated by the body corporate only, there exist greater incentives for strata managers to present to body corporates quotes selected on price and coverage only, rather than quotes based on the remuneration paid to insurance brokers.

These recommendations are considered in full in chapter 19.
Use of Industrial Special Risk policies and overseas markets

The vast majority of residential strata properties are insured under residential strata insurance products distributed by domestic insurers. However, alternative insurance arrangements exist for properties experiencing difficulties in obtaining residential strata insurance from the domestic market. In particular, properties may purchase an Industrial Special Risk (ISR) policy from either domestic or international insurers, or may seek insurance from the Lloyd’s of London market, colloquially known as Lloyd’s.

Industrial Special Risk products

Industrial Special Risk (ISR) insurance is a broad property cover product for high value business assets, generally valued at $5 million or more. ISR products are generally designed for commercial assets, and often includes consequential loss or business interruption cover which exceeds the requirements of insurance for many residential strata properties.

Where ISR policies provide cover for residential buildings, it is generally used to provide insurance cover for large, high value residential strata properties, or for residential strata properties unable to obtain insurance under residential strata insurance policies. ISR policies tend to be policies of last resort, as premiums are more expensive and the coverage offered is more suited to properties with a business or commercial component. One insurance broker noted that in some cases, multiple underwriters may be required to cover for all relevant risks, due to capacity constraints or the underwriting appetite of the underwriters. Some brokers indicated that they do not seek quotes for ISR insurance policies because their past experience is that premiums are unaffordable for the body corporate and can sometimes far exceed rental income generated by the property.

Data obtained from insurers indicates the use of ISR policies to insure residential strata properties in northern Australia is limited. In 2018–19, insurers received approximately $1.32 million in gross written premium from ISR policies insuring residential strata insurance properties with an average premium of approximately $110,000. The average property had a sum insured for over $40 million. This suggests the use of ISR policies to provide residential strata insurance cover is limited to large, high value strata properties.

Lloyd’s

Lloyd’s of London is a specialist insurance and reinsurance market that provides underwriters for general insurance products. Around the world, Lloyd’s consists of over 50 insurance companies (also known as managing agents), over 280 registered brokers and a global network of approximately 4,000 coverholders (also known as underwriters) who operate and underwrite the Lloyds market. Lloyd’s are licensed to operate in Australia and are regulated by APRA. Approximately 12% of the total premium invoiced in the 12 months ending June 2020 for general insurance business in Australia is invoiced with Lloyd’s underwriters.

Access to Lloyd’s can be organised by an insurance broker, who will generally arrange insurance through a managing agent. The managing agent will then seek the terms of cover, including premiums and excess amounts, from the individuals and corporate members who form the syndicates that underwrite the risk. Syndicates may individually insure a risk, or join together with other syndicates to provide different layers of coverage in the policy, depending on the risk tolerance of each syndicate.

It appears that similar to ISR policies, Lloyd’s schemes appear to be used as an insurer of last resort. The premiums offered through Lloyd’s schemes are more expensive and the coverage is more suited to risks which require a tailored insurance policy. One broker noted that Lloyd’s had premiums that ‘sting you’, and similar to ISR policies, the premiums charged tend to exceed rental income. In addition to this, some brokers suggested that they infrequently offer insurance terms through Lloyd’s due to the expensive insurance premiums.

Composition of strata insurance markets in northern Australia

The majority of northern Australian residential strata insurance products are supplied in north Queensland. In 2018–19, there were approximately 9,000 residential strata insurance policies written in northern Australia. As shown in table 16.2, approximately 73% of these were written for properties located in north Queensland.

Table 16.2: Number of residential strata insurance policies, by region, 2018–19

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Western Australia</td>
<td>148</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>2,255</td>
</tr>
<tr>
<td>North Queensland</td>
<td>6,610</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,013</strong></td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Most residential strata properties in northern Australian regions have 10 dwellings or less. As shown in table 16.3 below, approximately 83% of north Queensland residential strata properties contain 10 dwellings or less. In the Northern Territory 81% of properties have 10 dwellings or less. While in north Western Australia it is 67%.

Table 16.3: Proportion of residential strata properties in different dwelling brackets, by region, 2018–19

<table>
<thead>
<tr>
<th>Number of dwellings</th>
<th>North Western Australia</th>
<th>Northern Territory</th>
<th>North Queensland</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 or less</td>
<td>67%</td>
<td>81%</td>
<td>83%</td>
</tr>
<tr>
<td>11 to 20</td>
<td>16%</td>
<td>11%</td>
<td>8%</td>
</tr>
<tr>
<td>21 to 50</td>
<td>10%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>51 or more</td>
<td>7%</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurer intermediaries.

For strata policies in northern Australia with 11 or more dwellings, approximately 500 or 33%, had a sum insured of $5 million or lower, as shown in figure 16.2. In total, approximately 8,000 of the 9,000 residential strata policies in 2018–19 had a sum insured of $5 million or lower, or covered properties with 10 dwellings or less.

Figure 16.2: Distribution of residential strata insurance policies by sum insured bracket for northern Australia, properties with 11 or more dwellings, 2018–19

Source: ACCC analysis of data obtained from insurer intermediaries.
For strata properties with a sum insured greater than $5 million and with 11 or more dwellings, the vast majority (approximately 69%) are located in three geographic coastal regions in northern Australia, as shown in table 16.4.

Table 16.4: Number and proportion of northern Australian residential strata insurance policies with a sum insured over $5 million and with 11 or more dwellings, compared to proportion of combined home and contents products, by region, 2018–19

<table>
<thead>
<tr>
<th>Location</th>
<th>Number of strata policies</th>
<th>Proportion of northern Australia strata policies</th>
<th>Proportion of northern Australian combined home and contents policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Darwin</td>
<td>326</td>
<td>33%</td>
<td>7%</td>
</tr>
<tr>
<td>Townsville</td>
<td>108</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Cairns to Port Douglas</td>
<td>252</td>
<td>25%</td>
<td>11%</td>
</tr>
<tr>
<td>Total</td>
<td>686</td>
<td>69%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurer intermediaries.

For strata properties with more than 10 dwellings and with a sum insured value of more than $5 million in our northern Australian case study regions, approximately 5% were built before 1985.489 As discussed later, properties built before 1985 have fewer alternative suppliers and will generally need to provide a structural engineer’s report to confirm the building complies with cyclone building standards in order to obtain a quote.

16.2 Strata insurance premiums in northern Australia

How strata insurers set prices

The approach to pricing strata insurance products is similar in approach to the pricing of home and contents products outlined in chapter 4. Intermediaries (as agreed with the underwriting insurer) generally consider the expected claims costs for both working and catastrophe claims, the associated reinsurance costs (as allocated to the portfolio by the insurer), operating expenses, commission costs and a margin when calculating the technical premium of a policy.

In calculating expected claims costs, intermediaries will review a property’s previous claims history for both working claims and catastrophe claims. Properties with an extensive claims history will likely incur a loading on its technical premium and may also be subject to a special excess for a particular recurring claim (such as water damage). As discussed later, a property’s claim history may also result in an insurer or insurer intermediary refusing to provide a quote.

Rating factors are various characteristics of the property and policyholder that have been shown to impact the likelihood of the policyholder making a claim, or the severity of a claim when it occurs. Strata insurer intermediaries take into account rating factors when calculating expected claims costs in order to set the technical premium.

For strata insurance, the most common rating factors relate to the characteristics of the property, such as the building sum insured, location, building age, number of storeys and construction materials and the policy coverage.

Table 16.5 provides examples of rating factors used by strata insurer intermediaries to determine the expected claims costs.

Different factors will be relevant to different types of claims, and a combination of a group of these factors helps to explain the relative risk of a particular strata property.

489 Data excludes two insurers who were unable to provide year of construction.
490 Working claims are claims that are not caused by a natural peril or catastrophe.
Table 16.5: Rating factors used in claims cost models for strata insurance

<table>
<thead>
<tr>
<th>Property characteristics</th>
<th>Coverage characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location—which may include:</td>
<td>Excess</td>
</tr>
<tr>
<td>Natural hazard exposure (risks from events such as earthquakes, cyclone, hail, storm surge etc.)</td>
<td>Whether optional covers are selected</td>
</tr>
<tr>
<td>Distance to coast</td>
<td>Liability sum insured amount</td>
</tr>
<tr>
<td>Elevation above sea level</td>
<td>Voluntary Workers sum insured amount</td>
</tr>
<tr>
<td>Building sum insured</td>
<td>Fidelity sum insured amount</td>
</tr>
<tr>
<td>Age of the building(s)</td>
<td>Workers’ Compensation sum insured amount</td>
</tr>
<tr>
<td>Wall, floor and roof construction materials</td>
<td>Office Bearers Liability sum insured amount</td>
</tr>
<tr>
<td>Type and number of facilities (e.g. lifts, pools, playgrounds, gymnasiums etc.)</td>
<td>Machinery Breakdown sum insured amount</td>
</tr>
<tr>
<td>Number of storeys</td>
<td>Loss of rent sum insured amount</td>
</tr>
<tr>
<td>Cladding percentage and type</td>
<td></td>
</tr>
<tr>
<td>Number of lots</td>
<td></td>
</tr>
<tr>
<td>Commercial or mixed occupancy</td>
<td></td>
</tr>
<tr>
<td>Property is wholly or partially heritage listed (including ‘level’ of heritage listing)</td>
<td></td>
</tr>
<tr>
<td>Occupancy percentage</td>
<td></td>
</tr>
<tr>
<td>Security features</td>
<td></td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurer intermediaries.

As discussed in chapter 21, while insurers generally assess a property’s resilience to natural catastrophe with reference to the above property characteristics, a number of insurers currently do not have measures in place which allow them to take private mitigation activity into account. This is also the case for the strata insurer intermediaries. While many of the strata insurer intermediaries will require an engineer’s report for properties built before a certain year to ensure compliance with cyclone building standards and to assess its overall resilience to cyclone, most strata insurer intermediaries do not have systems in place to account for mitigation measures that improve resilience, but do not materially change the property’s characteristics (such as improved roof fasteners), for properties built after more stringent building standards came into effect.

The price of strata insurance in northern Australia

During the course of the inquiry, we received an increasing number of reports from consumers expressing concerns with significant premium increases. This section considers the price of strata insurance in northern Australia for different sized strata properties.

Average premiums for different strata property sizes

In chapter 3, we find average premiums for strata insurance products in northern Australia were more than double the rest of the country, and are highest in north Western Australia.

Examining prices in northern Australia more closely, we find the size of the strata property has a significant impact on the difference in average premiums between regions. In figure 16.3 below, we find that for properties with 10 dwellings or less, average premiums in north Western Australia are more than double than the average premium for similar properties in north Queensland. However, for properties with 11 to 20 dwellings, average premiums are approximately the same between these two regions. Similarly, average strata insurance premiums are the lowest in the Northern Territory for all strata property sizes except for properties with 10 dwellings or less (these are lowest in north Queensland).
In order to consider the premium impacts on individual unit owners, we looked at premiums per dwelling for those properties with more than 10 dwellings. Premiums per dwelling vary considerably for all properties, particularly those located in north Queensland and north Western Australia, as shown in figure 16.4. While the average premium per dwelling is lower than the average home building insurance premium in each region, the distributions shown below demonstrate that premiums per dwelling for some strata properties are much higher than for other strata properties, depending on a range of factors considered in table 16.5 above.

In chapter 3, we find that average strata premiums peaked in 2011–12 and have been gradually decreasing since. However, if we examine this trend more closely, we find that pricing trends differ significantly between strata properties of different sizes.
Figure 16.5 shows average premiums for strata insurance products covering strata properties of different sizes in northern Australia between 2014–15 and 2018–19. Average strata insurance premiums for properties with 10 dwellings or less have slightly decreased, while average premiums for properties with 11 to 20 dwellings have remained fairly stable. This is consistent with trends identified in chapter 3. However, for properties with 21 to 50 dwellings, average premiums are trending upwards. While properties with more than 50 dwellings have seen significant average premium increases in the last three years.

Due to the significant difference in the number of policies written between properties with 10 dwellings or less and properties with 11 or more dwellings, when aggregated together, average premium trends suggest strata insurance prices have remained fairly stable since the 2011–12 price increases. However, as shown in figure 16.5, large properties with more than 20 dwellings have faced significant price increases in the last three years. As we discuss later, properties with 10 dwellings or less appear to be benefiting from increased competition from direct suppliers that circumvent the intermediated market. Similarly, most properties with 11 to 20 dwellings have sum insured amounts below $5 million, which enables these properties to access a greater number of suppliers.

Retail premiums for properties with 11 or more dwellings

In order to better understand the affordability concerns facing larger strata properties, we obtained policy level data from insurers and insurer intermediaries for strata properties with 11 or more dwellings in northern Australia. The following sections consider the premiums paid for these strata properties in further detail.

Distribution of strata insurance retail premium per $1,000 sum insured

We considered the distribution of premiums per $1,000 sum insured for strata insurance products providing cover for strata properties with 11 or more dwellings. We found that average premiums per $1,000 sum insured slightly decrease as the sum insured increases, with the trend more pronounced in north Western Australia, as shown in figure 16.6. For strata properties in the Northern Territory and north Queensland, the variation in premiums per $1,000 sum insured is fairly consistent between sum insured brackets, although are lowest and vary the least in the Northern Territory. This indicates that premiums vary significantly for strata properties of all sizes and premiums likely reflect the diverse range of risk exposure facing these properties.

Source: ACCC analysis of data obtained from insurer intermediaries.

Due to the significant difference in the number of policies written between properties with 10 dwellings or less and properties with 11 or more dwellings, when aggregated together, average premium trends suggest strata insurance prices have remained fairly stable since the 2011–12 price increases. However, as shown in figure 16.5, large properties with more than 20 dwellings have faced significant price increases in the last three years. As we discuss later, properties with 10 dwellings or less appear to be benefiting from increased competition from direct suppliers that circumvent the intermediated market. Similarly, most properties with 11 to 20 dwellings have sum insured amounts below $5 million, which enables these properties to access a greater number of suppliers.

Retail premiums for properties with 11 or more dwellings

In order to better understand the affordability concerns facing larger strata properties, we obtained policy level data from insurers and insurer intermediaries for strata properties with 11 or more dwellings in northern Australia. The following sections consider the premiums paid for these strata properties in further detail.

Distribution of strata insurance retail premium per $1,000 sum insured

We considered the distribution of premiums per $1,000 sum insured for strata insurance products providing cover for strata properties with 11 or more dwellings. We found that average premiums per $1,000 sum insured slightly decrease as the sum insured increases, with the trend more pronounced in north Western Australia, as shown in figure 16.6. For strata properties in the Northern Territory and north Queensland, the variation in premiums per $1,000 sum insured is fairly consistent between sum insured brackets, although are lowest and vary the least in the Northern Territory. This indicates that premiums vary significantly for strata properties of all sizes and premiums likely reflect the diverse range of risk exposure facing these properties.

We note there were only 55 policies with 11 or more dwellings north Western Australia in 2018–19.
Figure 16.6: Retail premium per $1,000 sum insured distribution for strata insurance products for strata properties with 11 or more dwellings in northern Australia, by sum insured bracket, 2018–19

Effect of sum insured on strata insurance retail premiums

Unlike home and contents insurance products, consumers are not generally free to select the sum insured for their strata property, rather northern Australian state and territory strata legislation generally requires the common property and each building that contains a lot (e.g. an apartment or unit) to be insured for the full replacement or reinstatement value.492

Figure 16.7 below shows the retail premium and sum insured amount for properties with 11 or more dwellings and with a sum insured over $5 million in north Queensland. Only policies with a basic excess of $500 are shown. It shows there are a large number of strata policies with similar sum insured amounts with significantly varied retail premiums. In particular, there is little correlation between sum insured and retail premium for properties with a sum insured between $5 million and $15 million. This further illustrates that other property characteristics are more likely to explain premium variability than the sum insured amount.

492 See:
For WA, Strata Titles Act 1985 (WA) section 97 and Schedule 2A, clause 53D.
For QLD, Body Corporate and Community Management (Standard Module) Regulation 2008 (Qld) sections 178–180.
For NT, Unit Title Schemes Act 2009 (NT) sections 52-54, and Unit Titles Act 1975 (NT) section 80.
While there is a positive relationship between sum insured and premium, the range of premium levels for strata properties with similar sum insured amounts highlights the significant effect of other property characteristics.

**Retail premiums for new and continuing customers**

In chapter 10, we find retail premiums for home and contents products for renewing customers are, on average, higher than retail premiums for new customers. This is indicative of insurers using new customer discounts to attract new business and then gradually increasing the premium in subsequent years.

However, as shown in figure 16.8 below, new customer average premiums are slightly higher that renewing customer average premiums for most sum insured brackets in northern Australia.
Figure 16.8: Average retail premiums for new and renewing customers for strata insurance products for properties with 11 or more dwellings, by sum insured bracket and region, 2018–19

Source: ACCC analysis of data obtained from insurer intermediaries.
Note: In north Western Australia, there were only two new policies with a sum insured above $20 million in 2018–19, both with a sum insured above $100 million.

The small differences in average retail premiums for new and renewing customers in most regions and for most sum insured brackets indicates that insurer intermediaries in these regions are not seeking to discount premiums for new customers. Average premiums being higher for new customers in most regions could also be because properties with a higher exposure to risk (and therefore a higher premium) are more likely to switch to a new insurer intermediary than customers with lower exposure to risk (and therefore lower premiums).

The impact of excess levels on strata insurance premiums

As shown in figure 16.9, the most common basic excess for strata insurance products for properties with 11 or more dwellings is $500, with 60 to 70% of policies across northern Australia selecting this amount. However, in north Western Australia, the figure was only approximately 15%, and around 83% of strata properties have an excess of $1,000 or above. This indicates that a greater number of larger strata properties in north Western Australia are accepting higher excess levels as a way to manage higher premiums.
As we find with home and contents insurance products, strata properties located in our northern Australian case study areas have steadily increased excess levels over the last 11 years. In 2008–09, 97% of strata insurance policies had excess levels of below $500 in these areas, but by 2018–19, only 11% did. The majority of policies in these areas now have an excess of between $500 and $1,499, as shown in figure 16.10.
Impact of basic excess levels

In chapter 3, we find average premiums for combined home and contents products with similar sums insured will decrease as the basic excess increases. This is consistent with consumers in northern Australia increasing their basic excess as a way to manage higher premiums.

For smaller strata properties, with a sum insured between $2 million and $3 million, we find increasing excess levels are associated with lower average premiums, but the effect is not large. However as shown in figure 16.11, for strata insurance products for properties with 11 or more dwellings in northern Australia, we find for properties with a sum insured between $5 million and $6 million, and between $10 and $12.5 million, higher excesses correspond with significantly higher average premiums.

Figure 16.11: Average retail premiums for strata insurance products in northern Australia for properties with 11 or more dwellings, for selected sum insured brackets by excess bracket, 2018–19

![Average retail premiums for strata insurance products in northern Australia for properties with 11 or more dwellings, for selected sum insured brackets by excess bracket, 2018–19](image)

Source: ACCC analysis of data obtained from insurer intermediaries.

This is not to say that for individual properties, increasing the excess will not result in a lower premium. Insurer intermediaries recognise the positive impact an increase in excess has on a policy’s loss ratio and will therefore generally recognise an increase in excess with a reduction in premium. However, for larger strata properties of a similar sum insured in northern Australia, the properties location and property characteristics have the highest impact on premiums, and properties with a high exposure to risk are most likely to increase the basic excess to manage significant increases in premium.

Similar results can be observed using other sum insured brackets and across regions in northern Australia.

Applying a special excess

A special excess is the amount of money a policyholder must pay towards the cost of certain specified claims. Rather than being selected by the consumer, a special excess is usually imposed on the consumer by the insurer. Insurers will generally apply a special excess for claims events that have a significant impact on a policy’s loss ratio.

Insurer intermediaries were required to provide the inquiry the cause and amount of each special excess in effect for strata properties with 11 or more dwellings in northern Australia.

We have grouped the special excesses into the following categories:

- flood
- storm, includes storm surge
- cyclone
- earthquake
- water damage, including burst pipes
- building damage, including machinery breakdown, impact and fusion
- other, includes various liabilities and malicious damage.

In northern Australia, the most commonly used special excess is for cyclone events as shown in figure 16.12. Approximately 38% of all strata properties with 11 or more dwellings in 2018–19 had a special excess for cyclone events. Cyclone special excesses also have the highest average excess amount, at approximately $25,000 in 2018–19. The second most commonly used special excess was for water damage, at 14% of strata properties, with an average excess amount of approximately $6,000 in 2018–19. As discussed in the next section, water damage and cyclone damage are the second and third leading cause of claims expense in northern Australia after storm.

Figure 16.12: Proportion of policies with a special excess and average special excess amount for strata insurance products for properties with 11 or more dwellings in northern Australia, by special excess type, 2018–19

![Figure 16.12](image)

Source: ACCC analysis of data obtained from insurer intermediaries.

Cyclone special excess amounts are generally calculated on a per dwelling basis, with a $1,000 per dwelling excess commonly used by insurer intermediaries, however the amount can vary significantly depending on the property’s characteristics. Another common approach to setting a special excess level is as a per cent of the building sum insured. To adjust for this, figure 16.13 below shows the average special excess per dwelling.
A water damage special excess is generally imposed on any strata property that has made a water damage related claim within the last three or four years, although a longer time period may apply. The special excess amount typically increases as the number of water damage related claims increases. As discussed later, water damage accounts for the largest proportion of claims by number of claims over the 10 year period between 2008–09 and 2017–18. Research by one insurer intermediary found past water claims are a strong predictor of future water claims.

As shown in figure 16.14, where a special excess is applied, the building sum insured is a likely predictor of whether a special excess will be used for more than one event, and the amount of those special excesses, with higher building sums insured correlating with a higher average number of special excess and a higher average special excess amount.
This indicates that insurer intermediaries seek to reduce their risk exposure for high value strata properties by sharing more of the risk for high claims costs events with the body corporate.

**Relationship between special excess levels and premiums**

We consider below the two most common special excess categories: for cyclone and water damage.

In figure 16.15, we find for properties with a sum insured below $5 million, a higher cyclone special excess corresponds with slightly lower average retail premiums. However, for sums insured amounts between $5 million and $20 million, higher cyclone special excesses correspond with higher average retail premiums. For the largest strata properties, average premiums do not vary with cyclone special excess amounts up to $50,000, however those properties with a cyclone excess amount above $50,000 also have much higher retail premiums.

![Figure 16.15: Average retail premium for strata insurance products for properties with 11 or more dwellings in northern Australia, by selected sum insured brackets and cyclone special excess bracket, 2018-19](image)

Source: ACCC analysis of data obtained from insurer intermediaries.

This is not to suggest that implementing or increasing a special cyclone excess for a property would increase its premium. Rather, it appears properties with a high cyclone risk (and likely higher average retail premiums) are more likely to have a cyclone special excess imposed by an insurer or insurer intermediary. Without the cyclone special excess, the average retail premium for high cyclone risk properties would likely be much higher.

Unlike cyclone risk, water damage risk is not based on location but other factors such as the age of the building and whether the property is regularly inspected and maintained. This gives the body corporate and the strata manager greater control over the property’s exposure to water damage risk. Properties with confidence in their inspection and maintenance schedules could implement or increase a water damage special excess in order to reduce their average retail premium.

In figure 16.16, we find for properties with a sum insured below $5 million, a higher water damage special excess corresponds with slightly higher average retail premiums. However, for sums insured above $5 million, the lowest average premiums are seen where there is a low water damage special excess in place of up to $2,500. This suggests that implementing a small water damage special excess for properties in these sum insured amounts may positively impact retail premiums.
### Figure 16.16: Average retail premium for strata insurance products for properties with 11 or more dwellings in northern Australia, by selected sum insured brackets and water damage special excess bracket, 2018–19

![Image of Figure 16.16](image_url)

Source: ACCC analysis of data obtained from insurer intermediaries.

However, water damage special excess amounts higher than $2,500 are associated with higher average retail premiums across all sum insured brackets above $5 million. As insurer intermediaries generally increase the water damage special excess for a property the more times it makes a water damage related claim (rather than simply on a per dwelling basis common with cyclone special excesses), this suggests that properties with a water damage special excess equal to or above $2,500 have generally made multiple water damage related claims and therefore receive a higher retail premium.

### The costs of supplying strata insurance in northern Australia

In order to better understand retail premium prices and premium trends for strata properties of different sizes, we have considered the varying costs of supplying insurance to different sized strata properties in northern Australia.

#### Claims costs for strata insurance products in northern Australia

Claims are more likely to be made under a strata insurance policy than under home and/or contents insurance policies. This is unsurprising given strata properties’ larger size and multiple dwellings. In 2018–19, the claims frequency for strata insurance products in northern Australia was 20%, compared to 15% for combined home and contents products, and 6% for both home products and contents products. However, this is a significant reduction from 2007–08, when the claims frequency for strata insurance products was 35%, as shown in figure 16.17.
As discussed in chapter 5, cyclones are the main cause of claims for home and contents policies in northern Australia, whereas storms (including hail) are the main cause of claims in the rest of Australia. However, for strata policies in northern Australia, while cyclone is again a key difference between northern Australia and the rest of Australia, storm is the main cause of claims, making up 53% of northern Australian strata gross claims expense.

The cost of storm claims in northern Australia is also much higher per policy than the rest of Australia. The average strata claims expense per policy for storm claims each year is $1,843 across the 56,900 northern Australian strata policies sold between 2008–09 and 2017–18. In the rest of Australia the corresponding figure is only $313, despite storm being the largest strata claims cause in the rest of Australia.
Table 16.6: Average claim cost per policy by claim type, for strata insurance products in northern Australia and the rest of Australia, 2008–09 to 2017–18, real $2018–19

<table>
<thead>
<tr>
<th>Claim cause</th>
<th>Average claim cost per policy in Northern Australia ($)</th>
<th>Average claim cost per policy in the rest of Australia ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Storm</td>
<td>1,843</td>
<td>313</td>
</tr>
<tr>
<td>Cyclone</td>
<td>320</td>
<td>13</td>
</tr>
<tr>
<td>Water damage</td>
<td>285</td>
<td>369</td>
</tr>
<tr>
<td>Flood</td>
<td>124</td>
<td>5</td>
</tr>
<tr>
<td>Fire and explosion</td>
<td>76</td>
<td>139</td>
</tr>
<tr>
<td>Accidental damage and loss</td>
<td>31</td>
<td>36</td>
</tr>
<tr>
<td>Impact</td>
<td>29</td>
<td>62</td>
</tr>
<tr>
<td>Vandalism/malicious damage</td>
<td>19</td>
<td>37</td>
</tr>
<tr>
<td>Fusion</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>Storm surge</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Theft</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Liability</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Earthquake</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Bushfire</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Unclassified</td>
<td>705</td>
<td>131</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

Strata properties, particularly multi-floor strata buildings, can be significantly impacted by storm events as water ingress on one floor can flow down and cause damage to multiple lower floors. This appears to be a significant problem in northern Australia, as evidenced by the average strata storm claims expense per policy.

The bulk of cyclone claims expense for strata in northern Australia can be traced to 2016–17 in north Queensland, with $12.7 million in cyclone claims expense out of the $17.9 million total between 2008–09 and 2017–18. A further $2.6 million in 2010–11 was the next largest contributor. The 2016–17 year also accounted for the majority of storm claims expense in north Queensland, with $67 million out of the $98 million total between 2008–09 and 2017–18. A further $16 million storm claims expense was incurred in 2010–11. Together, 2010–11 and 2016–17 cyclone and storm claims made up 67% of all north Queensland strata claims expense between 2008–09 and 2017–18.

While storm events are the leading contributor to claims expense for strata policies in northern Australia, in terms of number of claims, water damage is the main reason a claim is made (excluding unclassified claims).
As discussed previously, average excess levels for strata insurance products in northern Australia have increased over the 10 year period from 2008–09 to 2017–18. As excess levels have increased, the number of working claims made by strata insurance policy holders in northern Australia has decreased. This suggests that many smaller incidences that were previously claimed on insurance are now being dealt with by the body corporate or other alternative means. This is shown in figure 16.20 below.

As discussed previously, in order to reduce the number of water damage related claims and to encourage body corporates to undertake frequent water damage related maintenance, strata insurer intermediaries may impose a water damage related special excess.
Claims trends for different strata properties

Examining claims trends over the five year period from 2014–15 to 2018–19, we find strata properties with 11 or more dwellings have significantly higher claims costs per policy than strata properties with 10 dwellings or less, as shown in figure 16.21. However, average claims costs per policy over the 5 year period are fairly similar for properties with 21 to 50 dwellings and properties with 51 or more dwellings.

**Figure 16.21:** Average claims cost per policy for strata insurance products in northern Australia by number of dwellings, 2014–15 to 2018–19, real $2018–19

Source: ACCC analysis of data obtained from insurers and insurer intermediaries.

Claims in 2016–17 were a particularly significant driver of cost over the 5 year period for all property sizes except for those with 10 or less dwellings. Overall, strata properties with 10 dwellings incur significantly lower costs per policy than properties with 11 or more dwellings.

Commission costs for strata insurance products in northern Australia

As discussed in chapter 4, insurers incur commission costs when a policy is purchased from an insurer intermediary or a consumer intermediary. Commission costs, in particular when paid to an insurer intermediary, can reduce other operating expenses such as staffing and marketing costs as these functions are outsourced to the intermediary. In this sense, paying a commission can be a cost effective way to reduce overall expenses.

For residential strata insurance products in northern Australia, commission costs have increased greatly over the 12 year period from 2007–08 to 2018–19, rising from $1.8 million in 2007–08 to $11.9 million in 2018–19. While this can be attributed in small part to an increase in commission rates, the bulk of this increase can be attributed to the dramatic increase in premium revenue during the same period. In the first six years from 2007–08 to 2012–13, commission expenses on average made up approximately 15% of the insurers’ premium revenue for residential strata insurance products in northern Australia. This increased to 17.5% over the next six years. This is shown in figure 16.22 below. In the same period, premium revenue for residential strata products increased from $14 million to $60 million.
Due to the heavily intermediated nature of strata insurance markets, commission expenses in northern Australia are much higher for residential strata products than for home and contents products. In the 12 year period from 2007–08 to 2018–19, the commission expense across all strata products was on average $1,188 compared to $106 across all home and contents products. This is despite the proportion of products sold via an intermediary being similar for strata and home and contents products. We note sum insured values are usually much higher for strata insurance products which has a significant impact on premiums. As shown in figure 16.23, the commission expense per policy for residential strata insurance products in northern Australia peaked at $1,841 in 2013–14.

In 2018–19, commission expenses made up around 80% of insurers’ total underwriting expenses for strata insurance products in northern Australia, up from around 48% in 2007–08. For home and

493 Underwriting expenses (also known as operating costs) include things such as administrative expenses, marketing and claims handling costs. This is discussed further in chapter 4.
contents products, commission expenses make up around 50% of total underwriting expenses for northern Australia, up from approximately 30% in 2007–08.

**Profitability of strata insurance in northern Australia**

As discussed in chapter 6, strata insurance profitability in northern Australia has been poor, incurring an estimated loss of $67 million from 2007–08 to 2018–19. The overall profit margin for strata insurance over this 12 year period is −13% in northern Australia compared to 2% in the rest of Australia. In an attempt to increase profitability, insurers have been increasing the amount of gross written premium received from writing strata insurance in the region. For example, the number of strata insurance policies in north Queensland has increased 53% from 2007–08 to 2018–19, while the amount of gross written premium has increased 423% over the same period.

Poor profitability has also resulted in strata insurers reducing their exposure in cyclone prone areas. In 2018, one insurer noted for three cyclone exposed regions, the received gross written premium was about $0.5 million, but cyclone cost was about $1.2 million. In response, the insurer investigated underwriting strategies to ensure it did not write more ‘significantly under-priced business’ in these regions. While another insurer planned to increase premiums and reduce far north Queensland exposure as it was considered unprofitable.

Profitability appears to differ depending on the number of dwellings in the property. In the period from 2014–15 to 2018–19, properties with 10 dwellings or less have, on average, paid out $70 in claims for every $100 collected in premium. Whereas properties with 11 to 20 dwellings, and 21 to 50 dwellings, have paid out $140 to $150 in claims for every $100 of premium collected. Properties over 50 dwellings have a claims costs to premium revenue ratio similar to properties with 10 dwellings or less. However, we note average premiums for properties with over 50 dwellings have increased significantly since 2016–17. Figure 16.24 shows the ratio between claims costs and premium revenue for properties of different sizes.

**Figure 16.24: Ratio between claims costs and premium revenue for strata properties of different sizes in northern Australia, 2014–15 to 2018–19**

![Graph showing the ratio between claims costs and premium revenue for strata properties of different sizes in northern Australia, 2014–15 to 2018–19.](image)

Source: ACCC analysis of data obtained from insurer intermediaries.

Properties with 10 dwellings or less, and also those with 51 dwellings or more, appear to have been significantly less impacted by cyclone Debbie, which occurred in 2016–17, than properties with 11 to 50 dwellings, as indicated by the significantly higher claims expenses incurred in 2016–17.
16.3 Competition in northern Australian strata insurance markets

Strata insurance market concentration and market share in northern Australia

As discussed in chapter 7, the level of concentration in northern Australian strata insurance markets raises concerns for the effectiveness of competition in those markets. Market share figures presented below include market participants that underwrite the vast majority of strata insurance in northern Australia but may not include all market participants.

The national strata insurance market is largely dominated by a single insurer intermediary, while regional markets were also largely dominated by a single insurer or insurer intermediary. The introduction of Sure Insurance and the change of underwriter for Longitude is, however, likely to result in a lessening of concentration in north Queensland strata insurance markets over time.

Examining the level of concentration in northern Australian strata insurance markets by the number of dwellings in the property, we find some insurers and insurer intermediaries hold a much greater share of gross written premium depending on the size of the property and the region, as shown in figure 16.25 below.

Figure 16.25: Insurer brands’ and insurer intermediaries’ share of total gross written premium for strata insurance products, by region and dwelling bracket, 2018–19

Suncorp’s direct strata product accounts for the second highest share of gross written premium in north Queensland for properties with 10 dwellings or less, at 9%. However, in terms of number of policies written, approximately 50% of properties with 10 dwellings or less in north Queensland are insured under a Suncorp direct strata insurance product. This indicates that Suncorp receives significantly less gross written premium for its direct strata insurance product than other insurers and insurer intermediaries for similar properties.

Approximately 58% of all strata insurance policies written in northern Australia are located in just four geographic locations: Darwin, Mackay, Townsville and Cairns. In Darwin, the TIO holds a remarkable 94% share of gross written premium. This is likely due to its historic position of being the government...

Mackay postcodes: 4740, 4741.
Townsville postcodes: 4810, 4811, 4812, 4814, 4815, 4816, 4817.
Cairns postcodes: 4868, 4869, 4870, 4878, 4879.
owned insurer for the Northern Territory. However, the market share of each north Queensland region indicates a fairly equal dispersion between the major insurers/insurer intermediaries, as shown in figure 16.26. The market shares for these regions also reflects the property type demographics of each region. Mackay, in which Suncorp’s direct brand leads, is predominantly made up of small strata properties with 10 dwellings or less. While Townsville and Cairns, where Longitude and SUU lead, have a much greater number of larger strata properties.

Figure 16.26: Insurer brands’ and insurer intermediaries’ share of total gross written premium for strata insurance products, by region, 2018–19

As discussed in chapter 7 and in chapter 10, a relatively high market share in a particular geographic location (particularly one that is highly exposed to catastrophe risks) is often seen as undesirable due to the potential for significant claims costs in the event of a catastrophe affecting the area. Insurers or insurer intermediaries with a relatively high market share in these areas may wish to limit or reduce their exposure in these areas by increasing premiums or ceasing to write new business. Insurers or insurer intermediaries may also tighten underwriting guidelines so that properties with particular characteristics are removed from their portfolio.

Availability of strata insurance

Strata insurance availability concerns do not appear widespread, however, for a subset of strata properties they can be severe. These properties tend to be large (over $5 million sum insured and over 10 dwellings), older (particularly for those built before 1985) and located in close proximity to the coastline.

In addition, we find that strata availability for a subset of properties has worsened over the course of the inquiry, with a number of insurer intermediaries tightening their underwriting criteria in cyclone regions in northern Australia for properties of certain construction types and claims histories.

In this section we examine the availability of residential strata insurance depending on a strata property’s location, size and risk profile, and develop a more detailed view on where strata insurance availability concerns are pronounced.

Location

Strata properties located on offshore islands, near the coastline or in very remote postcodes in northern Australia have significantly fewer suppliers of strata insurance than in the rest of Australia.

Strata insurer intermediaries will automatically decline to quote properties located where geographic and postcode embargoes have been implemented. For example, one insurer intermediary does
not supply strata insurance to properties located in Port Hedland (and surrounding areas in north Western Australia).

Insurer intermediaries often embargo properties located in geographical areas that are highly exposed to tropical cyclones or in very remote postcodes, because of the high risk of significant insurance losses and/or extensive property damage.

In particular, almost all strata insurer intermediaries refuse to write new business for properties located on offshore islands, such as Magnetic Island and Hamilton Island, as island properties have a much higher exposure to perils such as cyclone risk and storm surge, in comparison to mainland properties. The unpredictable nature of these types of perils increases the difficulty for insurers in pricing these risks accurately in order to sufficiently cover associated costs. Insurers and insurer intermediaries also often consider there is a reduced ability to adequately respond to claims on island properties and very remote locations, due to the difficulty in finding accredited repairers and sourcing appropriate building materials. As a result, servicing strata complexes on offshore islands and very remote postcodes is considered to be more expensive.

A property’s proximity to the coastline can also impact on its strata insurance availability. Insurer intermediaries often consider that properties located near the coastline are more vulnerable to higher claims costs due to a greater catastrophe risk exposure. When the property is located within 500 metres of the coastline, there is a limited number of insurer intermediaries willing to supply strata insurance. In particular, for a property located in close proximity to the coastline and made of ‘inferior’ construction material (i.e. not 100% brick or concrete), there is an extremely limited number of willing suppliers.

**Strata property size**

The sum insured value of a property and/or its number of dwellings can impact on its ability to obtain residential strata insurance. In particular, Suncorp’s direct strata product provides cover for small residential strata properties of up to 10 units or $5 million sum insured. Sure Insurance’s residential strata product is currently restricted to residential properties with a sum insured value of $5 million or less.

Some insurer intermediaries also have aggregate exposure limits in northern Australia regions, which cap the total sum insured for a particular area either as a dollar amount or as a percentage of its product portfolio. In this case, insurer intermediaries will only consider insuring new properties if it does not cause the intermediary to exceed its aggregate limit cap. Aggregate exposure limits may disproportionately affect higher sum insured value properties, as it is more likely that an insurer intermediary will decline to quote a higher sum insured property that could cause it to exceed its exposure limit.

**Risk profile**

There are a number of factors that contribute to a property’s overall risk profile, such as building age, construction material and claims history. When deciding whether to quote a property, an insurer intermediary generally considers whether one or more attributes of the property’s risk profile would add considerable exposure to insurance losses in the case of an extreme weather event.

**Building age**

Supply of strata insurance for northern Australia properties built before 1985 is extremely limited. In particular, if the older building is located in a cyclone zone, many insurer intermediaries will refuse to provide a quote.

Properties built before 1985 in cyclone zones may be able to obtain insurance if they have undertaken upgrades to comply with cyclone resilience standards. One insurer intermediary requires north Queensland properties built before 1983 to have a satisfactory building consultant’s report or a North Queensland Strata Title Inspection Program report to obtain a quote.\(^\text{495}\) Another insurer intermediary generally does not consider properties built before 1985 to be acceptable, however will consider the request for a quote on a case-by-case basis.

---

\(^{495}\) The North Queensland Strata Title Inspection Program is discussed in more detail later in the chapter.
Construction materials

A property’s wall and roof construction materials, and frequency of maintenance, can impact on its ability to obtain strata insurance in northern Australia.

Properties with mixed or ‘inferior’ construction (i.e. walls that are not 100% brick or concrete) have difficulties obtaining residential strata insurance in northern Australia. Most insurer intermediaries will decline properties that have greater than 50% inferior construction, especially if the property is located in a cyclone region or near a coastline.

Many insurer intermediaries will also refuse to quote properties with tiled roofs, as they are considered to perform worse than other roof types during cyclones and storms. If the intermediary accepts tiled roofs, they often charge a premium loading.

In addition, a number of insurer intermediaries will not supply strata insurance to properties that are not well maintained or have known defects.

Claims history

Properties that have previously submitted claims may face difficulties in obtaining a renewal from their insurer or new business quotes from other insurer intermediaries. In general, insurer intermediaries consider whether a property has made a claim in the last five years, and look closely at any past cyclone claims and water-damage claims. Insurer intermediaries often consider that a property’s poor claims history is an indication of its vulnerability to damage and/or poor risk management.

One insurer intermediary generally does not offer a quote if the property has made a claim in the last three years, except for some (non-natural peril) claim types or where the claim amount was small. Another insurer intermediary will decline any properties that have made a claim in the last five years that is over $20,000 and relates to a catastrophe event (such as a cyclone). Other insurer intermediaries will apply a higher level of scrutiny to properties with a history of certain claims types.

Combination effect of quote refusal characteristics

When these characteristics that result in quote refusals are considered in combination, we see a class of strata properties that are significantly restricted in their choice of suppliers. For example, there is an extremely limited number of insurer intermediaries that are willing to insure properties that are:
- located within 500 metres of the coastline, on an offshore island or in very remote postcodes
- over $5 million sum insured
- built before 1985
- made from inferior or mixed construction, or with tiled roofs.

If a property also has a recent claims history, this may further restrict its ability to obtain residential strata insurance.

As previously noted, while alternative insurer arrangements are available (such as ISR policies and Lloyd’s), these appear to be considered policies of last resort due to their cost and more limited coverage.

Strata insurance availability is also impacted by intermediation arrangements

The intermediated nature of strata insurance markets also impacts strata insurance availability. As discussed previously and in chapter 19, commission arrangements can give rise to brokers and strata managers including insurance providers’ remuneration arrangements as part of their selection criteria for choosing an insurer. In addition to the supply of base commissions and volume-based payments, insurers will also enter into profit-share agreements with intermediaries as a further way to incentivise the sale of their products.

These arrangements may also give rise to strata managers, insurance brokers and insurers exclusively using each party’s services to obtain mutual growth in the markets for strata insurance distribution. For example, QBE and CHU have created an insurance product for exclusive use by the Prudential...
Investment Company of Australia (PICA), a strata management service company. However, CHU (the exclusive distributor of QBE residential strata insurance products) will only quote buildings in north Queensland managed by PICA. For body corporates not managed by a PICA affiliated strata manager, there is one less insurer in north Queensland strata insurance markets willing to offer supply.

In 2018, one insurer noted vertical integration in strata insurance markets makes it increasingly difficult to influence the intermediated market from both a pricing and sales perspective, and noted profitability in the intermediated segment is further exacerbated by high distribution costs and broader market access.

### Impact of quote refusals on strata insurance markets

Analysis of insurer quote data up to 30 June 2019 indicates some insurers are refusing to provide quotes to a significant number of strata properties in northern Australia, as shown in table 16.7.

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of quotes refused</th>
<th>Refusal rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Western Australia</td>
<td>26</td>
<td>12.32%</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>83</td>
<td>7.89%</td>
</tr>
<tr>
<td>North Queensland</td>
<td>1,344</td>
<td>23.15%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data obtained from insurers.

This indicates that for some residential strata properties, depending on their location, risk profile, or size, there are fewer alternative suppliers than those in other parts of the country, or those who are considered lower risk or have a lower sum insured value.

This appears to have resulted in fewer new policies being written for large strata complexes in our northern Australian case study areas over the last 10 years, while the overall number of policies being written has also reduced. This indicates that a number of large strata complexes have either acquired alternative strata insurance products such as Industrial Special Risk insurance, from alternative insurance sources such as Lloyd’s, or have forgone insurance altogether.

### Figure 16.27: Number of new policies and total number of policies for large strata complexes in the northern Australian case study areas, 2008–09 to 2018–19

Source: ACCC analysis of data obtained from insurers.


497 Large strata complexes are those with 20 dwellings or more.
Northern Australian state and territory strata legislation requires common property and all buildings that contain a lot to be insured for their full replacement or reinstatement value. While there are limited exemptions to this requirement under Queensland and Western Australia strata legislation, from our discussions with relevant legislative bodies, we do not consider the use of these exemptions explains the reduction in the number of policies noted in figure 16.27.

For body corporates unable to obtain strata insurance in the domestic market for the full replacement value of their common property, other arrangements may be required. Box 16.1 outlines measures the Queensland, Northern Territory and Western Australia governments have in place in these circumstances.

Box 16.1: State and territory government measures for strata properties unable to obtain insurance for full replacement cover

**Queensland:** The Queensland Commissioner for Body Corporate and Community Management can approve alternative insurance arrangements if satisfied that the required level of insurance cannot be obtained, and that the alternative insurance provides cover that is as close as practicable to the required cover. However, the fact that the required level of insurance coverage is expensive does not of itself mean the body corporate cannot obtain that insurance. Body corporates must make a written request to the Commissioner with supporting documentation.498

**Western Australia:** The Western Australian *Strata Titles Act 1985* provides that if a strata company has taken all reasonably practicable steps available to it to obtain the required insurance but no insurer is willing to enter into a contract of insurance on reasonable terms that meets the requirements, the strata company must obtain whatever insurance it can obtain on reasonable terms that most closely meets the requirements. A strata company may also apply to the State Administrative Tribunal for an exemption from complying with its insurance obligations, subject to any conditions imposed by the Tribunal.499

**Northern Territory:** The Northern Territory *Unit Titles Act 1975* provides that a strata corporation may, by unanimous resolution, resolve that it will not insure against one or all of the risks required by the legislation. However, a unit owner may at any time serve a written notice requiring it to insure against that risk(s).500

While the arrangements outlined in box 16.1 do not improve strata insurance availability and affordability, they do enable strata properties to obtain some level of cover where otherwise unable, albeit by retaining a greater share of the risk.

**Improving strata insurance affordability and availability**

Strata insurance availability and affordability concerns appear to be most prominent for a small subset of strata properties in northern Australia. However, for these properties, the impact of the issue can be significant.

Competition for strata properties with 11 or more dwellings and with sums insured over $5 million is soft. Particularly for these properties with a higher exposure to cyclone and water damage risk. Insurers and insurer intermediaries appear to be reducing their exposure to these risks by increasing underwriting restrictions on the type and location of strata property they are willing to insure.

Soft competition for these properties has not coincided with higher profits for insurers and insurer intermediaries in northern Australia for strata products over the 12 year period to 2018–19. Instead, insurers and insurer intermediaries appear to be reducing exposure and increasing premiums for properties of certain sizes to address poor profitability results.

---


499  *Strata Titles Act 1985* (WA) ss. 97(2), 97(3).

500  *Unit Titles Act 1975* (NT) ss. 80(3), 80(4).
While some property features such as its year of construction and proximity to the coastline cannot be changed, there are other measures that may be undertaken to improve the property’s resilience.

The main claim causes driving poor profitability in the region result from storm, cyclone and water damage events. Water ingress from storm and cyclone events appears to be a significant driver of cost for strata properties in northern Australia, particularly large strata properties. While water damage claims are smaller, the frequency in which they occur is a significant driver of cost. This appears to be exacerbated by lower basic excess amounts, as higher claims frequency are correlated with lower basic excess amounts. Also, a past claim for water damage is a likely predictor of future claims.

Mitigating against these types of claims is one measure to improve strata insurance affordability and availability.

**Improving property resilience**

Regular inspection and maintenance of the grounds and buildings in a strata property helps reduce the impact of cyclone and storm events, and resulting water damage. Features of a property that are corroded, deteriorating or rotting can increase claims costs and worsen a policy’s loss ratio, resulting in increased premiums or a withdrawal of willing suppliers. One insurer notes blocked gutters and downpipes cause water damage within units during heavy downpours, while corroded flashings, and broken roof tiles and ridge caps can result in water penetration. It recommends having a routine maintenance plan in place, which may include periodic gutter and downpipe cleaning and regular grounds maintenance. Suncorp also note long-standing issues with water damage claims due to increased usage of flexi-hoses in strata properties, which IAG state accounted for 22% of water damage claims in Australian households in 2016.  

James Cook University also recommend strata properties develop a comprehensive cyclone preparation plan to enact when a cyclone approaches. For strata properties, actions such as taking down shade sails, fitting temporary shutters to windows and doors, trimming trees and removing, securing or storing loose items such as outdoor furniture can help prevent wind-borne debris that can cause damage to buildings in the event of a cyclone. One insurer assesses whether strata properties in northern Australia undertake regular maintenance and have a disaster plan in place when assessing its exposure to cyclone risk.

One program aiming to improve strata property resilience in north Queensland is the North Queensland Strata Title Inspection Program. This is a three-year program run by the Cyclone Testing Station at James Cook University. It is federally funded and administered by the Queensland Government. The program provides inspections and assessments for strata properties in north Queensland, using local building inspectors. Inspections are offered for strata properties within 100 km of the coast, starting from Rockhampton, extending to the Queensland/Northern Territory border, and including islands off the Queensland coast.

Once an inspection is completed, a report is provided to the body corporate that identifies the risks the property is exposed to, how resilient the property is to those risks, and makes recommendations the property can undertake to strengthen its resilience, or reduce its exposure, to those risks. This includes recommendations on reducing cyclone, storm and water damage risk exposure where relevant. The report includes the property’s current resilience score, as well as its achievable resilience score if the recommended actions described in the report are undertaken.

Participation in the program is voluntary. However, the James Cook University website states body corporates should note that most insurance policies include a duty of disclosure that may require notifying the insurer of the results of an inspection under this program.

Brokers we spoke to consider the program was useful for a body corporate to understand their risks and to provide strategies to reduce their exposure to risks. However, brokers expressed concern that

---


strata insurers did not reduce premiums in response to positive reports, but either increased prices or refused supply to properties that required remediation works. One broker, while supportive of the program, expressed concerns that strata insurers may use the program to only insure properties with high resilience scores, which may result in properties with lower resilience scores experiencing increased prices, reduced terms and conditions or increased instances of refusal to supply cover. Sure Insurance, however, has stated it uses the reports to assess strata risks in north Queensland, and have provided discounts to properties that have invested in resilience and received high and very high resilience scores in reports.504

The North Queensland Strata Title Inspection Program has numerous benefits. It promotes resilience awareness among strata property owners, and provides body corporates with strategies and recommendations to improve resilience. This could prove particularly useful for governments considering funding, or co-funding, private mitigation. Overall, the reports are a useful tool to assess the quality of strata stock in north Queensland, and can improve the overall quality of strata stock in north Queensland if the reports’ recommendations are undertaken, which will have a long term positive impact on strata insurance availability and affordability.

However, the program’s potential for improving availability and affordability in the near term is dependent on how insurers take account of the inspection reports provided to strata properties. Only Sure Insurance has publicly stated it will use the reports to assess a property’s resilience. In order to improve insurer and insurer intermediary confidence in the reports, and to promote its use in assessing a property’s risk, we urge the insurance industry to undertake further engagement with James Cook University to ensure the reports are useful to industry. We consider how insurers can better support private mitigation in chapter 21.

The North Queensland Strata Title Inspection Program is due to expire on 30 June 2021. We consider the program should be extended beyond this date so that all strata properties in north Queensland have an opportunity to undertake an inspection and implement its recommendations. We also consider the North Queensland Strata Title Inspection Program should be expanded to other parts of northern Australia so that strata properties in those regions can also benefit from the program.

**Recommendation 16.1**

**Extend and expand the North Queensland Strata Title Inspection Program**

The North Queensland Strata Title Inspection Program is due to end on 30 June 2021. The program should continue in north Queensland beyond this date, and be expanded to other parts of northern Australia.

Extending and expanding the program will help more property owners to gain an understanding of the risks they face and their options to mitigate them.

We acknowledge that for strata properties currently experiencing acute insurance availability or affordability issues, the above measures will not address these issues in the short-term. In chapter 8, we note direct subsidies could be an effective way of relieving some of the acute insurance affordability pressures on consumers in northern Australia. These can be more targeted than other measures to address affordability issues, and are a more effective way of subsidising insurance premiums than other measures we considered.

---

17. **Product characteristics, terms and conditions**

### Key points

- The *Insurance Contracts Act 1984* (Cth) places obligations on insurers and their customers. It imposes duties of the utmost good faith and disclosure, sets out standard cover for a range of classes of general insurance, and requires insurers to provide consumers with certain information.

- The standard cover regime exists to standardise terms and conditions of insurance contracts and protect against a lack of coverage for events that consumers might commonly expect to be covered by their product. However, a policy can (and usually does) provide more or less coverage than standard cover and the law allows this so long as insurers clearly inform their customers.

- Insurers’ freedom to derogate from the standard cover regime should, in theory, allow insurers to offer the variety of policies that consumers demand, to the benefit of consumers. But this fundamentally relies on consumers being able to confidently identify the policies available that most closely offer what they want. We are not satisfied the current disclosure framework reasonably allows consumers to identify how seemingly comparable policies differ (an observation we build on in chapter 18).

- This difficulty in identifying derogations from standard cover is exacerbated by the proliferation in definitions used by insurers of the same key terms. Despite setting out the events that comprise standard cover, with the exception of flood, the law does not define these events. It is left to insurers to implement their own definition and communicate this to a consumer in the fine print of a product disclosure statement.

- In spite of the many ways seemingly comparable policies actually differ, industry continues to advocate for consumers to choose insurance policies based on an understanding of features, not just on price.

- In its review of the standard cover regime, we recommend that the Treasury develop a proposal to further standardise the definitions for prescribed events in the standard cover regime. It should also review the elements of standard cover with a view to incorporating common exclusions and limitations and mandating that insurers offer a product equivalent to the revised standard cover. These measures would make it easier for consumers to understand and compare insurance products.

This chapter focuses on the non-price differences in home insurance products supplied throughout northern Australia, including coverage inclusions and exclusions and the lack of consistency in how insurers define certain terms. It considers the extent to which insurers derogate from the statutory ‘standard cover’ regime and the adequacy of existing requirements to disclose standard cover derogations. Finally, this chapter also considers the application of unfair contract terms protections to insurance contracts.

### 17.1 What is an insurance contract?

An insurance policy is a contract between an insurer and a customer. The contract sets out the terms and conditions under which a consumer agrees to pay a premium to the insurer, and the terms and conditions under which the insurer agrees to compensate or indemnify a consumer for loss after an unforeseen event.
The Insurance Contracts Act 1984 (Cth) (Insurance Contracts Act) places obligations on insurers and their customers. The purpose of the Insurance Contracts Act is to:

...improve the flow of information from the insurer to the insured so that the insured can make an informed choice as to the contract of insurance [the insured] enters into and is fully aware of the terms and limitations of the policy; and to provide a uniform and fair set of rules to govern the relationship between the insurer and insured.505

Most of the provisions apply to home, contents and some to strata title insurance. The Insurance Contracts Act imposes duties of the utmost good faith and disclosure, sets out standard cover for a range of classes of general insurance, and requires insurers to provide consumers with certain information.

The duty of utmost good faith

All aspects of an insurance contract, from the time a policy is taken out to each party’s responsibilities in the event of a claim, is subject to a duty on the parties to act in ‘utmost good faith’. Section 13 of the Insurance Contracts Act requires both the insurer and the insured to ‘act towards the other party, in respect of any matter arising under or in relation to it, with the utmost good faith’.

Although it is clear that the duty applies to both parties to an insurance contract, it is less clear what the duty entails. The Insurance Contracts Act does not define the duty of the utmost good faith but, as was observed in the General Insurance Background Paper 14 to the Royal Commission (Royal Commission Background Paper), the High Court’s ‘judicial formulations of the duty’ in CGU v AMP506 are arguably definitional. The Royal Commission Background Paper sets out the formulation of the duty by Emmett J in the Full Court of the Federal Court in AMP Financial Planning Pty Ltd v CGU Insurance Ltd507 (the decision that was the subject of the appeal to the High Court) and the three formulations from the High Court. The Royal Commission Background Paper observes that these formulations are consistent in that:

1. [the duty has] no essential element of honesty. However, dishonest conduct would likely be a breach of the duty of the utmost good faith
2. the standards are community (Full Court) and commercial (High Court) standards [of decency and fairness], and
3. ‘fairness’, ‘decency’ and ‘reasonableness’ are relatively similar terms and arguably essential elements of the duty of the utmost good faith. But the meaning of the duty goes beyond these subjective terms.508

The Royal Commission Background Paper also noted that the duty of the utmost good faith is not a fiduciary duty.509 It may require an insurer to have regard to the interests of the consumer as well as its own interests, but unlike a fiduciary duty, the duty of the utmost good faith does not require the insurer to put the consumer’s interests above its own interests.510

Given the lack of definitional certainty about the content of the duty, it is not clear what a consumer may need to show in order to establish that an insurer has not acted in good faith.

Furthermore, it is questionable whether a breach of the statutory duty by an insurer ‘would ever add anything to damages flowing ordinarily from a contractual breach’511 Section 14A of the Insurance Contracts Act provides that, if an insurer has failed to comply with the duty of the utmost good faith,

505 Senate Economic Reference Committee, Australia’s general insurance industry: sapping consumers of the will to compare, August 2017, p. 12.
508 General Insurance Background Paper 14 to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Dr Ian Enright; Peter Mann; Professor Rob Merkin QC; Greg Pynt, p. 92.
509 ibid.
511 General Insurance Background Paper 14 to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Dr Ian Enright; Peter Mann; Professor Rob Merkin QC; Greg Pynt, p. 93.
ASIC may exercise its powers under Part 7.6 of the Corporations Act 2001 (Cth) to vary, suspend or cancel the insurer’s licence or make orders banning the insurer from providing financial services. However, there is no provision for financial penalties for a breach of section 13.

**The application of unfair contract term protections to insurance contracts**

Consumer stakeholders say the duty of the utmost good faith does not go far enough to protect consumers and advocated for the exemption from unfair contract terms (UCT) to be removed.

On 18 December 2017, the government announced that it would extend the UCT provisions to contracts of insurance. On 27 June 2018 the Treasury subsequently released a Proposals Paper with options for implementing this policy decision. The ACCC made a submission to this consultation, setting out our strong support to the extension of UCT protections to insurance contracts.

In our first interim report in November 2018 we noted the several reviews and inquiries that concluded that UCT laws be extended to insurance contracts and also reported on why the change was needed, how it could benefit consumers and why insurers wanted to retain their exemption. We made the following recommendation.

**Unfair contract term protections should apply to insurance**

The unfair contract term protections in the Australian Securities and Investments Commission Act should apply to insurance contracts regulated by the Insurance Contracts Act.

The government is currently consulting on this change (which it has agreed to in principle).

In February 2019 the Australian Government announced it would extend the UCT regime to insurance contracts in response to calls for the UCT regime to be changed, including our recommendation and in particular recommendation 4.7 of the Financial Services Royal Commission. We welcome this decision.

On 28 November 2019, the government introduced legislation to:

- amend the Insurance Contracts Act to enable the unfair contract terms regime under the Australian Securities and Investments Commission Act 2001 (Cth) (ASIC Act) to apply to insurance contracts covered by the Insurance Contracts Act;
- amend the ASIC Act to tailor the existing unfair contract terms regime in its application to insurance contracts.

The Financial Sector Reform (Hayne Royal Commission Response—Protecting Consumers (2019 Measures)) Bill 2019 received royal assent on 17 February 2020. The changes commence on 5 April 2021 and will apply to insurance contracts that are entered into, renewed or varied on or after this date. Under this new regime, the duty of utmost good faith is not impacted and will continue to apply to insurance contracts concurrently with the UCT regime.

With these developments, our earlier recommendation is no longer required.

**Disclosure obligations**

Section 21 of the Insurance Contracts Act, the ‘duty of disclosure’, supports the duty of the utmost good faith. It requires a consumer wanting to enter into an insurance contract to disclose to the insurer everything that might influence the insurer’s decision about whether to offer the insurance and on what terms. If a consumer fails to comply with this duty of disclosure, the insurer’s liability for a claim may be reduced or avoided altogether.

The disclosure requirements insurers must meet are provided for by the Corporations Act 2001 (Cth), the Insurance Contracts Act and the Insurance Contracts Regulations 2017 (Cth) (Insurance Contracts

---

512 Except for certain insurance contracts providing medical indemnity cover.
Regulations.\textsuperscript{513} Together they set out the specific information insurers must provide to consumers when they are purchasing a new policy, or renewing an existing one, which include a Key Facts Sheet (KFS) and Product Disclosure Statement (PDS).

We discuss the disclosure framework in chapter 18, where we consider in more detail how effectively current disclosure requirements are working for consumers. Throughout our consultation, we heard many local residents and property owners across northern Australia speak of their confusion about the detail of their policy and the inaccessibility of disclosure documents.

17.2 The concept of ‘standard cover’

The Insurance Contracts Act defines certain classes of insurance contracts as ‘prescribed contracts’. These are:

- home building
- home contents
- motor vehicle
- travel
- personal accident and sickness
- consumer credit.

The Insurance Contracts Regulations set out the standard cover terms and conditions of each of these classes of insurance.\textsuperscript{514} If an insurer chooses to offer an insurance policy that is different from standard cover, whether by offering more cover or less, it must clearly inform a customer in writing of the change. Any variations are generally communicated through the PDS, however insurers are not required to expressly state how their policy differs from standard cover.

What is included in standard cover?

The standard cover regime exists to establish a standard level of cover for prescribed events, to be implied into the terms and conditions of certain classes of insurance contracts. Box 17.1 sets out some of the main inclusions and exclusions of the standard cover regime. Notably, the standard cover regime provides for total replacement cover (where claims are not limited by a nominated sum insured).

The Insurance Contracts Act does not prescribe standard definitions of terms in the way it prescribes standard cover, with the exception of the term ‘flood’. There are several key product terms used by insurers that have different definitions between insurers. Inconsistent definitions make product comparability even more difficult and can confuse consumers about the level of coverage offered by a product.

\textsuperscript{513} See Corporations Act 2001 (Cth) Chapter 7, Division 2, section 941A(1); Insurance Contracts Act 1984 (Cth), Part 4, Division 4, sections 33B, 33C(1).

\textsuperscript{514} Insurance Contracts Regulations 2017 (Cth), Part 3, Division 1.
Box 17.1: Summary of features of standard cover for home building and contents insurance

- The destruction of, or damage occurring to, the home building on the site, being destruction or damage that is caused by or results from the following prescribed events:
  - fire or explosion, or
  - lightning or thunderbolt, or
  - earthquake, or
  - theft, burglary or housebreaking or an attempt to commit theft, burglary or housebreaking, or
  - a deliberate or intentional act, or
  - bursting, leaking, discharging or overflowing of fixed apparatus, fixed tanks or fixed pipes used to hold or carry liquid of any kind, or
  - riot or civil commotion, or
  - an action of a person acting maliciously, or
  - impact by or arising out of the use of a vehicle (including an aircraft or a water-borne craft), or
  - storm, tempest, flood (within the meaning given by [the standard definition of ‘flood’ in] section 34), the action of the sea, high water, tsunami, erosion or land slide or subsidence.

- Accidental damage that is breakage of any fixed glass, fixed shower base, fixed basin, fixed sink, fixed bath, fixed lavatory pan or fixed cistern.

- The insured or a residing family member of the insured incurring a liability as owner or occupier of the home building to pay compensation or damages to some other person.

Exclusions include:

- depreciation
- wear and tear, rust or corrosion
- the action of insects or vermin.

Standard cover and strata insurance

Standard cover, as set out in the Insurance Contracts Regulations, applies to contents insurance held by residents of strata properties. It does not, however expressly apply to strata buildings.

The body corporate for the strata scheme will generally be required by state or territory strata legislation to insure buildings and building improvements to reinstatement or replacement value, which includes any costs associated with replacement, such as demolition, surveying, architectural or engineering work. They will also be required to take out public liability insurance for the common property.

As shown below, the specific requirements vary by jurisdiction but typically use terms also used in the Insurance Contracts Act and Insurance Contracts Regulations:

- **Western Australia**—the *Strata Titles Act 1985 (WA)* and the *Strata Titles (General) Regulations 2019 (WA)* regulate residential strata insurance. The *Strata Titles Act 1985 (WA)* outlines what the strata/body corporate company must insure for. It requires that a strata company must ensure that all insurable assets of the scheme are insured against fire, storm and tempest (excluding damage by sea, flood or erosion), lightning, explosion and earthquake:
  - to replacement value, or
  - to replacement value up to, for an event of a specified kind, a maximum amount specified in the contract of insurance that is a reasonable limitation in the circumstances.\(^{515}\)

- **Queensland**—the *Body Corporate and Community Management Act 1997 (Qld)* governs the administration of community title schemes. There are also a number of regulations modules under

---

515 *Strata Titles Act 1985 (WA)*, Schedule 2A clause 53D and section 97.
this Act, the most relevant for building insurance being the Body Corporate and Community Management (Standard Module) Regulation 2008 (Qld). This requires that a policy of insurance taken out for building/s must cover damage\textsuperscript{516}, which is defined as:

- earthquake, explosion, fire, lightning, storm, tempest and water damage
- glass breakage, and
- damage from impact, malicious act, and riot.\textsuperscript{517}

### Northern Territory

—there are two Acts which govern strata/body corporate schemes and the relevant Act depends on when the development was set up:

- Unit plans registered from 1 July 2009 fall under the Unit Title Schemes Act 2009 (NT) and Unit Title Schemes (Management Modules) Regulations 2009 (NT). There are no prescribed events that must be covered under this Act or Regulations.
- Unit plan registered prior to 1 July 2009 fall under the Unit Titles Act 1975 (NT) and Unit Titles (Management Modules) Regulations. Under this Act a corporation shall insure and keep insured all buildings and other improvements on land in the scheme for their replacement value from time to time against all the following risks:
  - fire, lightning, tempest, earthquake and explosion
  - riot, civil commotion, strikes and labour disturbances
  - malicious damage
  - bursting, leaking and overflowing of boilers, water tanks, water pipes and associated apparatus, and
  - impact of aircraft (including parts of, and objects falling from aircraft) and of road vehicles, horses and cattle.\textsuperscript{518}

A submission to this inquiry indicated that consideration should be given to including additional prescribed contracts particularly in relation to strata buildings, arguing that prescribed contracts ‘were written over 30 years ago so they could do with some “modernisation” and should be reviewed’.\textsuperscript{519}

### How insurers innovate by varying products from standard cover

An insurance product can provide more or less coverage than standard cover. It is this freedom insurers have to innovate that contributes to the proliferation of variation between products. Of course product innovation can offer significant benefits for consumers and is necessary to ensure markets meet consumers’ needs. However, for these benefits to be fully realised, consumers need to be able to understand how similar products differ and make comparisons between them.

We reviewed and compared the PDSs and KFSs of a range of insurance products supplied in northern Australia and all the policies we looked at do differ from standard cover.\textsuperscript{520} In particular, they have varying exclusions and limitations on coverage, meaning that a consumer would need to carefully read the PDS to understand how the policies differed. Throughout our consultation, local residents and property owners across northern Australia repeatedly said how hard this was to do.

The main differences we identified from standard cover include:

- Action of the sea—part of standard cover but excluded by all insurers.
- High water—part of standard cover but excluded by all insurers.
- Tsunami—part of standard cover but excluded or limited by most insurers.
- Erosion or landslide—part of standard cover but excluded or limited by all insurers.

\textsuperscript{516} Body Corporate and Community Management (Standard Module) Regulation 2008 (Qld), sections 178-180.
\textsuperscript{517} ibid, section 176.
\textsuperscript{518} Unit Titles Act 1975 (NT), section 80.
\textsuperscript{519} R. Bellert submission to the NAII issues paper, p. 3.
\textsuperscript{520} PDSs and KFSs of insurance products reviewed in October 2020.
Accidental breakage (or glass breakage)—this is offered by all insurers to varying degrees, with some offering it with more superior products or excluding certain elements that are part of standard cover.

Flood—some insurers offer this as optional, depending on where the customer is located, while most insurers include it by default.

We note that as demonstrated above insurers have the ability to completely exclude a category and not provide any insurance protection.

The standard cover regime set out in the Insurance Contracts Regulations generally provides for the contract to fully indemnify the consumer for the cost of the loss or damage. This type of cover is often referred to as ‘total replacement cover’. For home building contracts, the standard cover regime provides for additional amounts for the reasonable costs of identifying and locating the cause of the damage, demolition and debris removal, and temporary accommodation.

As noted in chapter 18, only a small number of insurers currently offer total replacement cover, with most insurers limiting their liability to a nominated sum insured, a figure which is usually estimated by the consumer.

Many insurance products include coverage of some items or causes that are specifically excluded from standard cover, for example damage to electrical motors. These additional covers may be standard in some products or optional extras in others.

While consumers may select particular options in relation to an insurance product (e.g. additional coverage for certain events or items or level of excess), home and contents insurance contracts are typically presented on a ‘take it or leave it’ basis to consumers. Many local residents and property owners across northern Australia who participated in our public consultation used ‘flood cover’ as an example of this, with some saying they wanted to include flood insurance but couldn’t afford to, and others saying they wanted to exclude flood cover but their insurer wouldn’t allow them to opt out. They told us insurers were unwilling to do this.

Other product differences

Apart from the different types and levels of cover offered, other differences between products often exist. This adds to the complexity for consumers seeking to compare competing offers, particularly when such differences are inconsistently disclosed. For example:

- additional excesses for particular events, which may or may not be listed in the KFS. For example, one insurer applies an additional $250 for each claim for loss or damage caused by an earthquake or tsunami, in contrast another insurer applies $300. During our consultation, we heard some people say a higher excess applied to their policy for a named cyclone. Some insurers list this excess in the KFS, other insurers do not or they may make a simple reference to there being an additional excess. However, all KFSs do have a general statement that ‘A number of different excesses may apply in respect to this policy’. The specific details will usually be found in the PDS and/or the customer’s certificate of insurance.

- payment caps or limits on some home or contents items. For example, insurers will have a maximum limit for claiming on the loss of collections, sets and memorabilia. One insurer sets the maximum total claim limit to $5,000 and another insurer sets this amount to $2,000. The details of these limits are not generally provided in the KFS, other than the presence of a general statement that ‘This policy has restrictions that limit your cover for certain events and items’.

- specific features, such as removal of debris, either covered on top of the sum insured, or as part of it. For example, one insurer will cover up to 10% of the building sum insured for any one event and another will cover up to 20%. Some insurers will specifically stipulate in their KFS that this is an extra amount on top of the sum insured and make it clear in their PDS that this is the case. Other insurers are less clear.

Insurers also offer different tiers of cover. Most of the insurers reviewed offer at least two different levels of covers for both home insurance and contents insurance which generally consist of a basic and a more comprehensive product.
Is innovation working for consumers?

Freedom to derogate from the standard cover regime should, in theory, allow insurers to offer the variety of insurance policies that consumers are demanding. But the potential for this relies on consumers being able to confidently identify the products on the market that most closely offer what they want to buy.

If an insurer wishes to vary the terms of the insurance contract to derogate from standard cover, subject to the Insurance Contracts Act the insurer must ‘clearly inform’ the customer in writing of that fact before the contract is entered into. In practice, most insurers rely on the PDS and the accompanying KFS to do this. However the PDS does not need to specifically highlight any cover or exclusions that specifically fall short (or go beyond) of the prescribed standard cover.

The PDS outlines all the product inclusions and exclusions. It is generally a long and complicated document and it has been shown that many consumers do not read or understand it. As outlined by several inquiry participants, the presentation of differing terms and cover in the current form of PDSs makes it difficult for consumers to assess their needs and make appropriate decisions. This also restricts product comparability, making it difficult for consumers to make like-for-like comparisons. This is exacerbated for disadvantaged or vulnerable consumers, such as consumers with lower levels of literacy or for whom English is a second language.

iSelect outlined in its submission to the Senate inquiry that:

> PDSs are jargon-filled, excessively complex documents which make a like-for-like comparison between product offerings difficult. Too often, this complexity results in a customer basing their decision on price alone, which can result in insufficient or inappropriate cover.

In a submission to the Senate inquiry Mr John Rolfe also emphasised the difficulties that consumers face when trying to compare general insurance products using PDS documents:

> There are novels that are shorter than product disclosure statements. It is extraordinary. They run to 30,000 words. It would take hours to read just one of them. So let’s say you were going to look at half a dozen of them before you picked an insurer. It is beyond belief that anyone would do that. So no-one is ever really going to know the detail of their insurance product.

In 2012, the Insurance Contracts Act was amended to enable regulations to be made requiring insurers to provide a one-page KFS for home building and contents insurance policies. They are intended to provide increased simplicity, consistency and comparability for consumers when they are making decisions regarding insurance policies. Caution was provided in the Senate inquiry report that the KFS can oversimplify what is covered by a product and may give consumers a misleading impression. For example, Allianz noted that two distinct products can appear to offer the same insurance cover from the information provided in the relevant KFS when in fact they are very different.

The National Insurance Brokers Association (NIBA) argued ‘that the KFS has resulted in an oversimplification of what is covered by relevant policies and is therefore potentially misleading to consumers’. For example, an insurer might suggest in its KFS that flood cover is optional but when you read the PDS it stipulates that this is subject to the insurer’s approval. The examples provided above regarding ‘other product differences’ also demonstrate how information may be provided inconsistently across KFSs and provide the wrong impression about coverage. The combination of a KFS and PDS

---

521 ICA 2017 research report, Consumer research on general insurance product disclosure found that most consumers don’t read the PDS before purchasing a policy. ASIC commissioned research, Report 416, Insuring your home: Consumers’ experiences buying home insurance, found that only two in every ten consumers who took out new insurance or considered switching read the PDS, but that ‘reading’ the PDS generally meant reading selected pages, not all of it.

522 iSelect, Submission to the Senate inquiry into Australia’s General Insurance Industry, 10 February 2017, p. 5.

523 Senate Economic Reference Committee, Australia’s general insurance industry: sapping consumers of the will to compare, August 2017, p. 10.

524 See also chapter 7, where we estimate it would take a consumer over five hours to obtain three online quotes and read the PDSs for three combined home and contents insurance products.

525 Senate Economics References Committee, August 2017, Australia’s general insurance industry: sapping consumers of the will to compare, p. 40.

526 ibid.
can also create confusion, given one document could be perceived as saying something different to the other about product coverage. Chapter 18 explores concerns about the disclosure framework in more detail.

17.3 There is standard cover, but not standard definitions

Further limiting consumers’ ability to make effective comparisons between policies is the lack of consistency in how insurers define certain terms. Despite setting out the events that comprise standard cover, with the exception of ‘flood’, the law does not define the terms used to label these events. Several submissions to this inquiry and the Senate inquiry argued that the inconsistent use of definitions goes against effective disclosure.

Flood is the only defined term in standard contracts

In 2008 the ACCC was approached by the Insurance Council of Australia (ICA) seeking an authorisation for a common definition of ‘inland flood’. The ACCC was concerned that, to the extent that the proposed common definition introduced concepts which lacked legal certainty or applied concepts in a manner which may be inconsistent with their common meaning, the proposal may have the unintended consequence of increasing consumer confusion and diminishing the potential public benefits of the proposal.\(^{527}\)

Our consideration at this time demonstrated that definitions must serve to provide clarity and create certainty. That is, they must not be to the detriment of consumers. The ACCC encouraged industry to consider refinements to the definition proposed by the ICA, however we were not asked to consider an amended proposal.

The Natural Disaster Insurance Review Panel conducted an independent inquiry into flood insurance and related matters following a series of natural disasters in 2010–11 which revealed large numbers of consumers were not insured for floods in the way that they expected (for example, they did not have it, sub-limits restricted payments and sums insured were insufficient). The panel made 47 recommendations to the Australian Government which included insurers being required to offer flood cover, and the introduction of a standard definition of ‘flood’ to reduce consumer confusion.

In April 2012, the Insurance Contracts Act was amended to implement a standard definition of flood.\(^{528}\) In June 2012, the Insurance Contracts Regulations were amended to introduce the standard definition of ‘flood’ for certain insurance contracts, including home building, contents and strata title residences. Insurers were given a two year transition period to comply, with the amendments taking effect on 19 June 2014.\(^{529}\)

Sections 18 and 22 of the Insurance Contracts Regulations state that standard cover in respect of home building and home contents insurance includes a loss that is:

\[
\text{destruction of, or damage occurring to, the home building on the site (or the contents of the residential building which is specified in the contract, at a time when they are in the residential building or on the site of the residential building,) being destruction or damage that is caused by or results from: ... (xiv) storm, tempest, flood (within the meaning given by section 34), the action of the sea, high water, tsunami, erosion or land slide or subsidence;...}
\]

The prescribed definition of flood cannot be varied by insurers.\(^{530}\)

Although the introduction of a definition for flood is a positive step forward, and this was recognised by stakeholders in our public consultation, it does not deal with the broader problem of terms with differing definitions across policies impacting on product transparency and comparability.

---


\(^{528}\) Insurance Contracts Act 1984 (Cth), Part V, Division 1A, sections 37A-E.

\(^{529}\) See the Insurance Contracts Regulations 2017 (Cth), Part 3, Division 2, sections 33–35.

\(^{530}\) Under section 33(2) of Insurance Contracts Regulations 2017 (Cth), the prescribed definition of flood may not apply to insurance contracts arranged by an insurance broker who is acting as an agent of the insured person. Insurance brokers are provided the flexibility to negotiate tailored insurance products based on risks.
The Royal Commission into National Natural Disaster Arrangements reported that ‘standard definitions provide consistent scope in relation to a given insurable event, but, so far, only the definition of ‘flood’ has been standardised’ and that they ‘received evidence suggesting benefits in standardising the definition of ‘fire’ and other natural hazards’.  

**Insurers do not have consistent definitions of other listed events**

Consumer groups in particular expressed strong views about standardising definitions for key terms to assist consumers with comparability. CHOICE elaborated on this point, submitting to the Senate inquiry that:

> A good disclosure process can be defeated if key definitions are not standardised. This is particularly the case in insurance where a definition, potentially hidden 100 pages deep in a PDS, can radically alter the value of a policy.  

Margaret Shaw noted in her submission that:

> I know much more about insurance than I ever wanted to know and even I get confused at the wording. How do they [insurers] define flooding, storm surge, water ingress, and what’s the difference?  

In the absence of statutory definitions for common terms, it is unsurprising that the definitions developed and adopted by competing insurers can differ considerably. There is unlikely to be a competitive advantage for insurers in seeking to reconcile these divergent definitions.

A good example of the variation between insurers is the term ‘action of the sea’. CHOICE used this as an example in its submission to the Senate inquiry, advising that:

> ANZ excludes loss or damage caused by ‘actions by the sea’ however it does not define a tsunami as an action by the sea and will in fact cover loss or damage caused by a tsunami. By contrast Coles considers a tsunami to be an act of the sea and excludes damage or loss ‘caused by high tide, tidal wave, tsunami or other actions of the sea’.  

We reviewed several PDSs and KFSs of insurers active in northern Australia and came across additional terms with inconsistent definitions. The KFS provides a brief description of events, but the details provided by each insurer will differ. Two examples of terms in insurer PDSs are provided in boxes 17.2 and 17.3 below, demonstrating how definitions can differ and create confusion for consumers, particularly those looking to compare products. We note we initially reviewed these terms in 2018 and again in late 2020, with no change in these provisions.

---

531 Royal Commission into National Natural Disaster Arrangements Report, 28 October 2020, p. 421.
532 Senate Economics References Committee, August 2017, Australia’s general insurance industry: sapping consumers of the will to compare, p. 38.
533 M. Shaw submission to the NAII issues paper, p. 13.
534 Senate Economics References Committee, August 2017, Australia’s general insurance industry: sapping consumers of the will to compare, p. 38.
Box 17.2: Example of how the definitions can vary: definition of ‘Escape of liquid’

CommInsure’s PDS definition covers ‘loss or damage caused by the sudden and unexpected escape of liquid from any [of the following]:

- water main
- fixed water pipe (but not a garden hose)
- fire hydrant
- pool or spa
- fixed water feature
- fixed tank
- washing machine or dishwasher
- sink, basin, bath or toilet
- sealed portable heater, or
- fixed heating or cooling system’.

RACQ’s PDS definition refers to escape of liquid as ‘leaks’ from any of ‘the following items or devices malfunction at or near your home and leaks from them cause loss or damage to your home or contents:

- dish and clothes washing machines
- water catchment trays in refrigerators, freezers and evaporative air conditioners
- waterbeds
- pipes, gutters and drains which are fixed or connected to your home
- fixed domestic items which include water tanks, lavatory cisterns and pans, baths, basins and sinks
- water mains’.


536 RACQ Household Insurance Policy, effective date 1 March 2017, p. 24. We note general exclusions also apply regarding leaks as listed in the PDS, viewed 27 November 2018 and 17 September 2020.
Box 17.3: Example of how the definitions can vary: definition of ‘Impact’

RACQ’s PDS definition covers:
- The impact of these items cause loss or damage to your home or contents:
  - a motor vehicle or watercraft
  - a tree or tree branch
  - an aircraft, space debris or debris from a rocket or satellite
  - a satellite dish, solar hot water tank or aerial.
- The costs to remove and dispose of a tree or tree branch that causes the impact.  

CommInsure’s PDS definition (referred to as ‘sudden impact’) covers ‘loss or damage caused by the sudden impact of:
- any rail or road vehicle, bicycle, watercraft, caravan or trailer
- any aircraft or spacecraft
- space debris or debris from an aircraft, rocket or satellite
- broken or collapsed communications, aerials, masts, satellite dishes and/or power poles, or
- falling trees or branches, unless the damage or loss is caused directly or indirectly by tree or branch lopping or felling by:
  - you
  - a person who lives at your insured address, or
  - a person with your consent or the consent of a person who lives at your insured address’.

17.4 Improving ‘standard cover’ and the use of standard definitions

In its submission to the Senate inquiry, NIBA advised:

“...It is critically important to note that each insurance policy can be, and most likely is, different. While there are standard cover provisions in the Insurance Contracts Act and the Insurance Contracts Regulations, insurers develop and offer their own terms and conditions of cover, and it should not be assumed that policies widely available for domestic insurance risks are identical in the cover they offer.”

NIBA and the ICA were among stakeholders who, in their submissions to our inquiry, encouraged consumers to focus on these non-price difference in selecting an insurance policy.

These submissions come despite the extensive conversation in recent years, and highlighted through this chapter, about the difficulties that consumers face in trying to compare the detail of insurance policies. In chapter 18, we discuss the consumer experience in more detail.

In their submissions to our inquiry and the Senate inquiry, consumer representative groups raised the inconsistent use of definitions and the non-standardised nature of general insurance products as...
a barrier to product comparability, proposing standardisation of key product terms and a review of
standard cover as a way of helping to address this issue.\footnote{CALC submission to the NAII issues paper, p. 3; Legal Aid Queensland submission to the NAII issues paper, p. 9; CHOICE, Submission to the Senate inquiry into Australia’s General Insurance Industry, August 2017, p. 13; FRLC, Submission to the Senate inquiry into Australia’s General Insurance Industry, August 2017, p. 30; CALC, Submission to the Senate inquiry into Australia’s General Insurance Industry, August 2017, p. 10.}

Industry has also recognised the value of this proposal with Allianz expressing to the Senate inquiry a
general willingness of the industry to consider standardising definitions, remarking that:

\begin{quote}
I think we would all agree that having a standard definition of flood has been of great advantage to
the industry and to consumers. I do not think we would be averse to standardising some other
definitions like actions of the sea in a similar way.\footnote{Senate Economics References Committee, August 2017, Australia’s general insurance industry: sapping consumers of the will to compare, p. 39.}
\end{quote}

Legal Aid Queensland also supported the standardisation of definitions, submitting that ‘consumers
have difficulty comparing offers [and] where terms are on their face similar, consumers are unaware of
how each insurer may interpret an otherwise seemingly similar term’. Legal Aid Queensland suggested
that standardising definitions would allow consumers to more easily compare products.\footnote{Legal Aid Queensland submission to the NAII issues paper, p. 9.}

We agree with this view and believe a greater capacity to compare, leads to better informed consumers
which in turn drives competition.

While we support, in principle, measures that have the potential to genuinely improve consumers’
capacity to compare seemingly similar products and make better informed choices, any approach
must also carefully consider potential unintended consequences. For example, in the ACCC’s initial
consideration of an application to introduce a standard definition of ‘inland flood’ back in 2008,
we did not grant authorisation of the definition proposed, citing concerns it could introduce more
uncertainty.\footnote{See www.accc.gov.au/system/files/public-registers/documents/D08%2B88443.pdf, viewed 17 September 2020.} Similarly, the definitions for related terms (for example, for types of ‘action of the sea’) should be crafted to avoid the potential for coverage gaps.

There is also the potential that a standardised definition can result in some insurers having to raise
their level of cover to meet a new definition which, while improving coverage for consumers, can lead
to higher premiums where insurers (and consumers) continue to provide (and purchase) cover for the
risk affected by the standardised definition. A robust consultation process that represents consumers,
industry and regulators helps ensure any proposed standardised definition achieves its objectives to
improve consumer outcomes.

As part of the latest review of the General Insurance Code of Practice (the Code) the ICA consulted on
draft best practice disclosure guidance for incorporation into the Code. The final report, released in
June 2018, outlined consumer groups’ submission to the review suggesting that the guidance should
include the following additions:

\begin{itemize}
\item disclosure should promote consumer understanding of deviations from standard cover
\item a commitment to standard definitions.\footnote{Review of the General Insurance Code of Practice Final Report, June 2018, p. 34.}
\end{itemize}

The Royal Commission into National Natural Disaster Arrangements commented that ‘the standard
cover regime provides a set level of coverage for given insurance products’, despite this they ‘heard that
standard cover can be altered to become non-standard (such that it may exclude ‘standard’ events),
and that these alterations and their consequences are often unclear to consumers’.\footnote{Royal Commission into National Natural Disaster Arrangements Report, 28 October 2020, p. 421.}

The standard cover regime in its current form does not appear to be delivering the best outcomes for
consumers and fulfilling the intention of the Insurance Contracts Act. That is, consumers are finding it
difficult to make an informed choice and be fully aware of the terms and limitations of their product.
Making standard cover available to consumers

In its submission to the Senate inquiry, CALC contended that the standard cover regime for general insurance is not operating in line with its intended purpose and as such there are no minimum standards that a consumer can rely on in an insurance policy. As a result insurance lacks transparency. CALC also advised that standard cover has failed to address the significant problems people face when buying insurance and commented that the core problems which persist include comprehension, comparison and suitability.\(^{547}\)

The House of Representatives Standing Committee on Social Policy and Legal Affairs found ‘that deviation from the prescribed Standard Cover for general insurance has led to extensive confusion for consumers over what a particular insurance policy covers’.\(^{548}\) Consumer awareness of their policy coverage could be greatly improved if it could be compared against the reference of standard cover.

The Committee also reported that:

> Greater awareness of Standard Cover can be achieved either through making it mandatory for insurers to provide policies that meet Standard Cover, and through more easily understood and readily available disclaimers of derogation from Standard Cover than those that are currently given.\(^{549}\)

Consumer groups have also expressed concern, particularly through the Senate inquiry, that there is no requirement for the insurer to explicitly state to a consumer how a product specifically derogates from standard cover. As noted earlier, insurers can comply with the requirement to ‘clearly inform’ a consumer when their product provides less (or more) than standard cover simply by providing them with a PDS.

At present, insurers are not required to provide a product fully consistent with standard cover. Such an obligation would give consumers a reference point when comparing products across insurers and brands.

However, given the prevalence of insurers applying specific limitations for prescribed events (either a dollar limit on coverage, or exclusions for particular causes), and the fact that standard cover provides, in effect, total replacement cover (not limited by a sum insured), a mandated standard cover product would usually represent an increase in coverage and quality compared to most of an insurer’s existing products and would be priced accordingly.

While such products may suit the needs and budgets of some consumers, their likely cost in northern Australia would limit their appeal to most consumers and therefore their usefulness as a point of comparison between brands and insurers.

An alternative approach is to revise the terms of standard cover to incorporate common exclusions and limitations. This could result in a more affordable mandated standard cover product offering that would allow consumers to benchmark insurers against each other. Insurers will be able to offer other products with additional or fewer features in addition to this standard cover product. The product could include a standard excess (the national average in 2018–19 was generally around $850 for home insurance and $400 for contents insurance) and a sum insured cover rather than total replacement cover. Sum insured is the option more commonly taken out by consumers (noting that some insurers do not offer total replacement). The specific product inclusions and exclusions of standard cover should be set with reference to prevailing market offerings, with a view to making standard cover provide an acceptable level of coverage for the majority of the population.

Where insurers chose to offer other products that deviate from standard cover, they could be required to:

- explicitly state what features are in addition to or derogate from standard cover
- the price difference between choosing standard cover and the alternative product.

\(^{547}\) CALC, Submission to the Senate inquiry into Australia’s General Insurance Industry, August 2017, pp. 2–3, 9–10.
\(^{548}\) House of Representatives Standing Committee on Social Policy and Legal Affairs, In the Wake of Disasters, Volume One: The operation of the insurance industry during disaster events, February 2012, p. 43.
\(^{549}\) ibid, p. 93.
Consumers would be made aware when they select an alternative product that in doing so they are adding or opting out of certain events and the relevant premium implications.

The 2017 Senate inquiry report recommended that the government initiate an independent review of the current standard cover with particular regard to the efficacy of the current disclosure requirements. It also recommended that the government work closely with industry and consumer groups to develop and implement standardised definitions of key terms for general insurance. The government agreed that there is merit in further reviewing these recommendations and tasked the Treasury with assessing these proposals. Treasury released a discussion paper in January 2019 and received 20 submissions. Treasury is still considering its response, while focusing on a number of other issues including implementing recommendations arising from the Financial Services Royal Commission.

We strongly support the Treasury’s review of the standard cover regime, including a proposal to introduce consistent definitions for additional key terms and make two recommendations listed below. These initiatives have the potential to alleviate confusion, enhance the comparability of products and more informed decision making and lead to greater competition in insurance markets.

**Recommendation 17.1**

**Standardise definitions of prescribed events**

The Treasury’s review of the standard cover regime should develop a proposal to standardise the definitions of prescribed events (including ‘action of the sea’, ‘impacts’ and ‘storm’) to enable greater certainty for consumers and comparability of products.

New standard definitions should be drafted in a way that removes potential gaps in coverage between prescribed events, avoids the introduction of ambiguous concepts, and does not unnecessarily limit insurers’ scope for future beneficial product innovation.

**Recommendation 17.2**

**Review and mandate standard cover**

The Treasury’s review of the standard cover regime should develop a proposal to mandate that insurers offering home and/or contents insurance product(s) should also offer a home and/or contents insurance product that does not deviate (through inclusions or exclusions) from the revised standard cover terms in the Insurance Contracts Regulations.

By ensuring there is one common product from each insurer (but not necessarily each brand), consumers could easily benchmark insurers against each other. This should not limit an insurer from offering other products that provide cover that differs from the standard cover product but insurers should be required to clearly indicate how these products differ from their standard cover product.
The Royal Commission into National Natural Disaster Arrangements also found that ‘the review and update of mechanisms which can improve consumer understanding and use of insurance—including standard definitions, the standard cover regime...should be prioritised’.  

We note that these recommendations were initially made in our first interim report. In responding to the first interim report (and the recommendations above), the ICA advised us that it has:

- discussed with regulators and consumer advocates the possibility of an industry led review of problematic definitions (such as ‘action of the sea’) and received supportive responses
- undertaken consumer research on the value of a core package of covers for home and contents insurance and will provide this to the Treasury’s review of standard cover.

550 Royal Commission into National Natural Disaster Arrangements Report, 28 October 2020, p. 422.

18. Consumer information and choices

Key points

- Local residents and property owners across northern Australia have participated in our inquiry with a high degree of emotion. They are very concerned about the affordability of insurance and the impact this is having on the liveability of their community.

- We have heard about significant rises in premiums and how worried consumers are that they will no longer be able to afford insurance. They are anxious about the risks they face if they are under-insured or not insured at all. Many people told us they had already tried everything to keep their premiums affordable but were now uninsured.

- We found consumers are not always given the information they need to make good choices, as there is little visibility over how insurers are assessing risks, how premiums were being set and why they were increasing.

- We also heard from consumers who wanted to shop around, but found comparing insurance policies difficult and time consuming. They said they often lacked the confidence to understand exactly what they were covered for and how to compare policies.

- Despite the complexity of policy documents and lack of pricing transparency, the insurance industry continued to advocate for consumers not just to focus on price but on the detail of competing policies. Consumers found it difficult not to focus primarily on price.

- A number of important reviews, inquiries and research in recent years have highlighted shortcomings in current practices and requirements of disclosure in the general insurance industry.

- We welcome work that has commenced to implement a number of initiatives to improve the transparency and usefulness of information provided to consumers and we make a number of additional recommendations to this end.

- Choice is a fundamental driver of competition and many local residents spoke of little choice and said some insurers were simply declining to quote in their area. We have heard of some strata buildings being without insurance (in breach of their legal requirement) due to a lack of willingness by any insurer to offer coverage.

- More granular data, and increasingly sophisticated analysis of that data, is allowing insurers to identify and understand risks more clearly. This offers significant benefits to the community through improved risk identification, product innovation, and mitigation opportunities, but it also raises new concerns with issues of data access, sharing, and privacy. It also raises concerns about asymmetry of information: when insurers know more than consumers.

Throughout our public consultation, we repeatedly heard from local residents and land owners across northern Australia that understanding insurance is hard. Comparing policies is hard and time-intensive. That insurers are unwilling, or sometimes unable, to provide guidance to meet consumers’ needs. Consumers told us they were confused about how their premiums were being set and why their premiums were changing so significantly year on year. We can see this is creating real barriers for consumers who genuinely want to be engaged and make active and informed choices about their insurance cover.

This chapter draws on our public consultation to consider how consumers receive, access and use information to make decisions about their home, contents and strata insurance policies and how insurance decisions can be made easier for consumers. We make a number of recommendations that we consider will help consumers to think about the key features they want, or can afford, to include in their policy, how these may impact their premium, and how consumers can better compare between insurers.
18.1 Towards transparency and effective disclosure

Insurers and intermediaries are bound by a regulatory framework that sets out the content, form and timing of information that must be provided to consumers. While the general insurance disclosure framework has evolved in recent years, we commented in chapter 17 that its effectiveness in helping consumers to understand their insurance options and make appropriate choices continues to be challenged.

Effective disclosure is essential to an effective consumer protection regime. Industry has widely acknowledged that delivering information at the right time, and in the right way, to improve decision-making, is complex. It is a challenge for consumer contracts of all kinds around the world.\(^{552}\)

The current disclosure framework

Insurers and intermediaries must comply with a number of specific and general disclosure requirements. The disclosure framework is in addition to a broad range of consumer protection measures set out in the ASIC Act that apply generally to consumer financial products and services, such as prohibiting unconscionable conduct, misleading or deceptive conduct, and making false or misleading representations.\(^{553}\)

Chapter 7 of the Corporations Act 2001 (Cth) (Corporations Act) prescribes the content that must be covered in a general insurance Product Disclosure Statement (PDS), such as its terms, conditions, limits and exclusions. Insurers must provide a PDS at the point of sale. When insurance is sold through an intermediary such as a broker, the intermediary must provide the consumer with a Financial Services Guide (FSG). An FSG must disclose information about the financial services offered, remuneration arrangements (such as commissions), and any potential conflicts of interest. The FSG can be combined with the PDS in a single document.\(^{554}\)

Insurers will also provide customers with a certificate of insurance or policy schedule including details about the type of insurance cover, the sum insured amount, excesses that apply, some important exclusions and limits, the premium and the period of insurance.

In 2012, the Insurance Contracts Act 1984 (Cth) (Insurance Contracts Act) was amended to enable regulations to be made requiring insurers to provide a one-page Key Facts Sheet (KFS) for home building and contents insurance policies. The Insurance Contracts Regulations 2017 (Cth) (Insurance Contracts Regulations) prescribe the content, format and information that must be included in a KFS.

In addition, general insurers and brokers can choose to be members of the respective voluntary codes of practice which set standards of service for their industry:

- The Insurance Brokers Code of Practice 2014, is maintained by the National Insurance Brokers Association (NIBA).

The codes generally address standards that are not specifically dealt with in legislation, for example in relation to customer service, claims handling and complaint and dispute resolution. Unlike the General Insurance Code, the Insurance Brokers Code reiterates that it is an obligation of brokers to act in a consumer’s best interests at all times.

\(^{552}\) ICA submission to NAII issues paper, p. 32.
\(^{553}\) Australian Securities and Investments Commission Act 2001 (Cth), Division 2 of Part 2.
\(^{554}\) Subject to compliance with the requirements in section 942DA of the Corporations Act 2001 (Cth) and regulation 7.7.08A of the Corporations Regulation 2001 (Cth).
Previous reviews and research repeatedly find problems with disclosure

In 2010–11, there were a significant number of natural disasters in Australia, including severe flooding in Queensland, New South Wales and Victoria. The number of people adversely affected by these natural disasters as a result of inadequate insurance cover exposed problems in consumers’ understanding of their insurance.\(^{555}\)

In the aftermath of these disasters, a string of significant reviews involving the general insurance industry (set out below) consistently made findings and recommendations around improved guidance and a more effective disclosure framework so consumers are better equipped to make informed decisions.

ASIC released two reports in 2014 exploring consumers’ experiences with the sale of home insurance. Its first report found that insurers’ sales processes are generally designed around insurers’ need to understand certain risks or underwriting criteria about consumers so that they can sell home insurance quickly and efficiently, rather than improving a consumer’s understanding of the home insurance they are inquiring about.\(^{556}\) ASIC also found that only two in every ten consumers who took out new insurance or considered switching read the PDS, but that ‘reading’ the PDS generally meant reading selected pages, not all of it.\(^{557}\)

The 2014 *Financial services inquiry* considered the role insurance played in Australia’s financial system. The inquiry found that mandated disclosure regarding insurance products was not sufficient to allow consumers to make informed financial decisions. Disclosure can be ineffective for a number of reasons, including consumer disengagement, complexity of documents and products, behavioural biases, misaligned interests, and low financial literacy.\(^{558}\)

In response to these concerns, the ICA established a taskforce to lead an industry project on effective disclosure. The Effective Disclosure Taskforce made 16 recommendations in its 2015 report titled *Too long didn’t read: enhancing general insurance disclosure*. The Taskforce found the insurance disclosure framework centred on the provision of information without much regard for the consumer’s ability to usefully apply that information to choose a policy suited to their needs. The recommendations include carrying out market research to understand consumers better and to guide efforts to improve PDSs.\(^{559}\)

The Productivity Commission’s inquiry into *Natural disaster funding arrangements* also highlighted the importance of effective information disclosure for insurance, noting that consumers may not make efficient choices without relevant and understandable information. The report also noted the implications that a lack of consumer understanding about their personal risk and insurance coverage can have with regard to underinsurance or non-insurance.\(^{560}\)

While the Northern Australia Insurance Premiums Taskforce (NAIPT) was established to consider options to lower premiums in northern Australia, its 2018 report also found weaknesses in communication between insurers and consumers. It recommended the industry should engage more effectively with property owners in northern Australia, saying this requires improved disclosure of risks and greater responsiveness to policyholder concerns. The Taskforce went on to say there is also potentially a role for legislating enhanced requirements around the disclosure of risks if industry efforts do not achieve meaningful results for consumers.\(^{561}\)

In its 2017 research report, *Consumer research on general insurance product disclosure* the ICA found that most consumers don’t read the PDS before purchasing a policy. Most consumers believed they had considered all of the details when buying insurance, even though most do not look into exclusions and limits. Policy renewal letters were the most trusted and commonly used document for insurance

---


\(^{559}\) Insurance Council of Australia report, *Too Long; Didn’t Read*, October 2015, p. 25.


customers. While most consumers were confident they understand the detail of their policy, the research suggested consumers’ actual understanding of exclusions and limits were poor.  

The Senate Economics References Committee released its report (the Senate Report) into the general insurance industry in August 2017. The report made 15 recommendations on a range of issues, including the transparency of pricing, disclosure and competition in the general insurance industry. The Committee singled out the complexity of information as a particular issue, saying it was ‘deeply concerned’ by the apparent lack of transparency with regard to product disclosure, and the detrimental effect this has on consumers’ ability to effectively compare policies. It said that despite efforts by the sector to improve disclosure, more needed to be done.

In announcing its response to the NAIPT final report, and also the Senate Report, in December 2017, the government indicated it would be proceeding with a set of reforms recommended by the Senate Report to place downward pressure on insurance premiums through increased accountability and transparency within the industry, as well as proposals to increase consumer understanding of insurance. 

A number of the recommendations agreed to by the government to improve consumers’ understanding and access to information through better transparency and enhanced disclosure practices in the insurance industry have been referred to the Treasury to develop proposals. We make a number of recommendations that are relevant to these issues:

- strengthen the transparency of general insurance pricing by amending the product disclosure regime in the Corporations Act to require insurers to disclose the previous year’s premium on insurance renewal notices; and explain premium increases when a request is received from a policyholder (Senate Committee recommendation 3, see also ACCC recommendation 18.9 in this chapter)
- review component pricing to establish a framework for amending the Corporations Act to provide component pricing of premiums to policyholders upon them taking out or renewing an insurance policy, as well as an assessment of the benefits and risks to making such a change (Senate Committee recommendation 4, see also ACCC recommendation 18.6 in this chapter)
- initiate an independent review of the current standard cover regime with particular regard to the efficacy of current disclosure requirements (Senate Committee recommendation 5, see also ACCC recommendation 17.2 in chapter 17)
- work with industry and consumer groups to develop and implement standardised definitions of key terms for general insurance (Senate Committee recommendation 6, see also ACCC recommendation 17.1 in chapter 17)
- review of the utility of key facts sheets as a means of product disclosure, with particular regard to the effectiveness of key facts sheets in improving consumer understanding of home building and contents policies (Senate Committee recommendation 7).

**Product Disclosure Statements and Key Facts Sheets support clear disclosure and should be prominent**

In chapter 17, we explained the concept of ‘standard cover’ and an insurer’s freedom to derogate from that and offer products with different features. Consumers need to think about the key features they want, or can afford, to include in their policy. They need to be aware of what options there are for optional coverage for certain risks such as accidental breakage or for portable contents that may be

---

563 Senate Economic References Committee, Australia’s general insurance industry: sapping consumers of the will to compare, August 2017.
564 Senate Economic References Committee, Australia’s general insurance industry: sapping consumers of the will to compare, August 2017, p. 41.
566 Australian Government response to Senate Economics Reference Committee inquiry report into Australia’s general insurance industry. 22 December 2017.
away from the insured address. In some cases, flood coverage is also optional (but may be included by default). There is significantly more variation in the coverage limitations and exclusions under these broad areas of coverage, which will be set out more fully in a PDS. A KFS will provide a summary of these features.

Insurers vary considerably in the prominence they give to these disclosure documents on their websites. In our review of insurers’ websites in 2018, we found that in many cases, links to a KFS did not appear alongside their product offerings, or were located only in the ‘fine print’.

Ensuring consumers have ready and easy access to the PDS and KFS documents will help prompt them to assess important information about the products they are trying to compare. We consider that any mandatory information disclosure must, at a minimum, be prominent to consumers and potential consumers.

**Recommendation 18.1**

**Prominently publish Product Disclosure Statements and Key Facts Sheets online with product offerings**

*Insurers should be required to publish key facts sheets and product disclosure statements online in a prominent manner and alongside the relevant products.*

These documents should be accessible prior to the commencement of the online quoting process, and accessible throughout the entire quoting process. This will facilitate more timely and convenient access for consumers to important information about products they are interested in buying.

We do not consider the precise placement and presentation of this information needs to be regulated. We consider these documents will be prominent if they are at least alongside or directly underneath the relevant product and if a person visiting the website or viewing the signage can easily find and read them. These documents should also be accessible prior to the commencement of the quoting process, and should be accessible throughout the entire quoting process.

While an improved standard cover regime (as described in chapter 17) has the potential to reduce current reliance on PDSs and KFSs, consistently presented information of this kind will remain an important mechanism to help consumers to compare between insurers for optional inclusions and other product characteristics.

In 2019, the ICA responded to our invitation to comment on recommendations that we had made in our first interim report. Since making this recommendation in our first interim report, the ICA advised us that it has undertaken a review of the accessibility of PDSs and KFSs with a view to highlighting the scope for improvements in insurers’ practices.⁵⁶⁷

### 18.2 Making it easier for consumers to understand insurance

The anecdotal feedback we heard during our public consultation is largely consistent with the findings of previous reviews and research: engaging with insurance is hard and current disclosure requirements are not adequately helping consumers to understand their insurance options; not only with regard to different product features but also with regard to price. Premium pricing was repeatedly raised as an area of concern and confusion.

The ICA has previously published research showing that consumers focussed most on price (the premium) over policy detail.⁵⁶⁸ In its submission to our 2017 issues paper, the ICA said the insurance industry needed to do more to ensure customers are not just focusing on price, but are also recognising

---

⁵⁶⁷ The ICA responded to our invitation to comment on progress that the general insurance industry has made on a number of recommendations made by the inquiry in our first interim report. The ICA published its letter to us of 22 October 2019 on its website. The letter is available at https://www.insurancecouncil.com.au/submissions#2019Oct.

the importance of selecting the correct product and level of coverage to suit their individual needs.\textsuperscript{569} The Actuaries Institute made a similar point in its submission, highlighting that although the price (premium) is a key focus for consumers; the features of the policy such as the sum insured, the risks/events that are covered, the risk of damage and the excess are also important.\textsuperscript{570}

To make a good decision on the basis of price, however, consumers must have a reasonable understanding of how each policy varies and be able to make sense of the specific terms, conditions, features, limits and exclusions that differentiate one policy from another. Most local residents and property owners who participated in our consultation concentrated on price, rather than features, inclusions and exclusions. Adjustments to excess levels and sums insured were also a focus, but as a means of lowering the overall price rather than choosing the appropriate product. This is unsurprising given the relatively high cost of insurance in northern Australia (and this is discussed further later in this chapter). Many also questioned the considerable variation in the pricing of what they thought to be comparable products from different insurance brands.

A survey of its members undertaken by Strata Community Association (Qld) (SCA (Qld)) to inform its submission to our 2017 issues paper found that the quality and transparency of insurance information supplied by insurers should be improved. SCA (Qld) was one of many stakeholders who called for greater clarity on the factors impacting premium pricing (such as cyclone risk ratings) and noted a breakdown of insurance premiums would assist with this understanding.\textsuperscript{571}

Consumer advocacy groups submitted that industry could, and should, do more to ensure consumers understand their own needs and the key features of a policy. They proposed various policy reforms that could improve the functioning of the insurance market. In particular, they called for greater transparency in premium pricing and better disclosure of information more generally.\textsuperscript{572}

There is a range of education resources designed by industry and governments to help consumers understand how insurance works, common types of insurance products, how to consider risk, and tips for comparing and choosing products. These include:

- ASIC runs the MoneySmart website (www.moneysmart.gov.au), which contains extensive information for consumers about all things financial, including insurance.
- Consumer advocacy group CHOICE (www.choice.com.au) provides its members with independent reviews, comparisons, information and buying guides, including on insurance (and specifically northern Australia).

We suggest there is a lack of awareness of the information available on such websites, and consider there is scope for more direct promotion to consumers. A link to MoneySmart is included on insurance key facts sheets, however we recommend a link to MoneySmart should also be included on renewal notices.

\textbf{Recommendation 18.2}

\textbf{A link to MoneySmart should be on new quotes and renewal notices}

\textbf{Insurers should be required to clearly inform consumers about the Australian Government’s MoneySmart website (www.moneysmart.gov.au). A link to MoneySmart using uniform wording should be provided on new quotes and renewal notices.}

MoneySmart includes information to help consumers understand insurance. This is an important opportunity to raise awareness of the usefulness of this website.

\textsuperscript{569} ICA submission to NAII issues paper, p. 32.
\textsuperscript{570} Actuaries Institute submission to NAII issues paper, p. 8.
\textsuperscript{571} Strata Community Association (Qld) submission to NAII issues paper, p. 3.
\textsuperscript{572} See for example, Consumer Action Law Centre submission to NAII issues paper and Financial Rights Legal Centre submission to NAII issues paper.
In January 2019, Treasury released a discussion paper, *Disclosure in general insurance: improving consumer understanding*. While not offering a view, the discussion paper noted this recommendation (which we made in our 2018 first interim report) and observed this recommendation is consistent with ICA’s consumer research findings that renewal notices are the most commonly relied upon source of pre-purchase information for car and home insurance.\(^{573}\)

### Types of insurance policies

Insurance providers and intermediaries are required to hold an Australian Financial Services Licence (AFSL). This allows them to sell insurance and provide financial advice. The Corporations Act, however, makes an important distinction between general financial advice (advice about a particular product that does not consider a consumer’s personal needs); and personal financial advice (advice that does take into account a customers’ personal circumstances).

Insurance brokers, however, maintain additional qualifications which allow them to hold a different AFSL classification. This permits insurance brokers by law to provide personal financial advice and allows

---


\(^{574}\) Suncorp submission to Productivity Commission’s *Natural Disaster Funding Arrangement—Final Report*, December 2014, p. 20.
them to assist consumers to assess policy options that may suit their situation. We mention the role of brokers later in this section and more fully in chapter 10.

In 2015, the Effective Disclosure Taskforce proposed a reconsideration of how the financial advice regime applies to the general insurance industry to assist insurers to better engage with consumers. It said ASIC should provide regulatory guidance, and where necessary relief, to support the provision of advice to consumers purchasing general insurance products.\(^{575}\)

The Financial Rights Legal Centre’s submission to our issues paper reiterated support for the taskforce’s recommendation, proposing that the current approach taken by insurers with the ‘no advice’ model may not allow for meaningful engagement with consumers because of the fear that assistance will cross over from general advice into providing personal financial advice. It added that while some consumers do call the Financial Rights Legal Centre’s Insurance Law Service for advice about the meaning of certain provisions in their insurance policies, its resources are very limited and it can only assist a handful of these consumers.\(^{576}\)

As we set out in our following discussion, estimating the sum insured is often raised as an area where insurers could, within the current regulatory settings, provide better guidance to consumers.

**Recommendation 18.3**

**Better understand information that falls within ‘general financial advice’**

The Insurance Council of Australia should engage with ASIC to gain a clearer understanding about the nature and type of information insurers can give to consumers within the meaning of providing general financial advice.

This would ensure that insurers are not refraining from providing general information, for example about rebuilding costs and building valuations, which would assist a consumer make an informed decision about their own situation.

In responding to our first interim report (where we first made this recommendation), the ICA reaffirmed to us that the definitions of personal and general financial advice in the Corporations Act, and corresponding obligations, impede insurers from having worthwhile and informative conversations with policyholders about their insurance needs and that it has had extensive discussions with ASIC as to what can and cannot be said. However, due to the nature of the Corporations Act definitions and the ‘one size fits all’ nature of the regulatory regime, industry maintains that ASIC has been reluctant to be definitive in its guidance on the difference between general and personal financial advice in the general insurance context. The ICA advocates that, regardless of what else is amended, the Corporations Act should make it clear that general insurers can discuss with individual consumers key questions such as the most appropriate level of sum insured for them.\(^{577}\)

**Estimating sum insured with more accuracy and confidence**

Unlike total replacement policies, sum insured policies put responsibility for estimating the sum insured and for bearing the risk of under-estimating it on the policyholder. Following a number of reviews calling on the industry to do more to help consumers avoid underinsurance, most insurers have taken some positive steps to educate consumers about the risks of underinsurance and improve the availability of web-based calculators and/or incorporating them into their quotation process.\(^{578}\)

Most claims for damage to buildings in northern Australia are for a partial loss and any inadequacy in the sum insured amount relative to a total loss is not necessarily clear even following a partial loss claim.

---


\(^{576}\) Financial Rights Legal Centre submission to NAII issues paper, p. 9.

\(^{577}\) The ICA responded to our invitation to comment on progress that the general insurance industry has made on a number of recommendations made by the inquiry in our first interim report. The ICA published its letter to us of 22 October 2019 on its website. The letter is available at https://www.insurancecouncil.com.au/submissions#2019Oct.

\(^{578}\) ASIC report 89, Making home insurance better, January 2007, p. 6.
However, when a home insured under a sum insured policy becomes a ‘total loss’ and needs to be rebuilt, the sum insured may not be sufficient to fully replace the home. While the data we obtained from insurers suggests insurers often pay out claims up to, and even a margin over, a consumer’s sum insured for home insurance, we did see some instances of clear underinsurance, where a claim pay out limited by the sum insured was only a fraction of the estimated value of the loss.

**Sum insured calculators can cause confusion**

Despite near universal reliance from insurers in Australia on the Cordell calculator for building sum-insured, the results can vary considerably and this can be a cause for confusion and concern for consumers.

In 2018, we surveyed the calculators provided by leading insurers in northern Australia using the characteristics of a hypothetical property in northern Australia. These calculators asked between 17 and 47 questions about the hypothetical property and returned estimates ranging from approximately $600,000 to $665,000. It seemed to us that the range could, in part, be attributed to the inclusion or exclusion of an allowance for costs such as demolition, debris removal, and engineer/architect/legal fees. These were generally not included in the estimated sum insured if the policy provides separate cover for these costs, however this was only apparent in the disclaimers accompanying the individual calculators. ASIC found that some home insurance brands within the same insurer group even differed in their estimates.  

The ICA has suggested variations can also occur because:

- the frequency of updates to data varies (quarterly/annually)
- the cost of rebuild differs from insurer to insurer based on individual arrangements with suppliers
- insurers have their own intelligence about the cost of rebuild derived from previous claims costs in the area.

ASIC’s MoneySmart website ([www.moneysmart.gov.au](http://www.moneysmart.gov.au)) and the ICA’s Understand Insurance website ([www.understandinsurance.com.au](http://www.understandinsurance.com.au)) explain how calculators work and things to look out for in using them, however the majority of consumers will likely not access this information.

When a calculator suggested a sum insured higher than a consumer expected or variations occurred, ASIC reported that consumers had a tendency to assume the higher estimate was a deliberate sales tactic of the insurer to push up the premium, rather than an accurate reflection of current re-building costs. The Effective Disclosure Taskforce made a similar finding, as did a subsequent ICA research report, which reported only 63% of respondents find the home building/contents calculator trustworthy, although many consumers appear to be using them.

During our consultation, consumers in northern Australia also shared their scepticism of calculators and similarly suggested that automatic indexing upwards of sum insured were both just tactics to raise premiums. Insurers seem well aware of such perceptions, and yet say indexing (for example with reference to CPI or an index of construction costs) occurs as a measure to account for inflation and new household purchases.

To minimise risks of consumers underinsuring, some insurers have implemented a sum insured floor that a consumer is allowed to select. For example, Suncorp has established a “minimum sum insured” threshold whereby a customer is unable to select a sum insured that is more than 10 to 15% below the result generated by the calculator. Industry also say they encourage consumers to review their sum insured every year and re-evaluate their sum insured when they renovate or make new purchases.

---

583 See for example, Anonymous 51 submission to NAII issues paper.
585 Suncorp Home and Contents PDS 2012, p. 3.
The Effective Disclosure Taskforce found that the development of sum insured calculators for contents has not been as advanced as that for home building insurance, and made a number of recommendations aimed at encouraging insurers to take steps to improve their calculator tools for estimating required contents coverage.\textsuperscript{586} A survey undertaken for the ICA in 2016 found that most households (70\%) guess the value of their contents themselves. Almost half (45\%) admitted they had no idea how much their contents were worth, or thought their valuation was out by more than $5,000.\textsuperscript{587}

**Helping consumers estimate a sum insured**

A survey undertaken by ASIC in 2007 found that most insurers said that they were not in a position to provide consumers with individual advice about the adequacy of the sum insured.\textsuperscript{588} In its 2014 report on *Consumers’ experience buying home insurance*, ASIC also commented that rebuilding costs and valuing the building are two areas where insurers have information they could share with consumers as general guidelines, not necessarily personal financial advice.\textsuperscript{589}

The Corporations Act allows insurers to provide guidance on the replacement value of home building or contents without needing to comply with the personal advice rules.\textsuperscript{590} In its 2014 report, the *Financial Systems Inquiry* observed this, but found it was not working and insurers are not typically providing guidance on replacement value. The inquiry proposed that underinsurance and non-insurance would reduce if, as standard practice, insurers gave consumers relevant information, guidance and advice on home building and contents insurance and encouraged insurers to provide further guidance and make consumers more aware of tools that can help them to purchase adequate insurance cover.\textsuperscript{591}

We consider that estimating the sum insured is one area where insurers could, and should, provide better guidance to consumers to lessen the risk of underinsurance. Insurers are likely to already have access to the information necessary to estimate a sum insured in relation to their customers’ insured buildings. As such, they should be in a position to understand if there are material differences between the sum insured a customer has selected and the amount suggested by their own sum insured calculators.

Taking recommendation 18.3 (for insurers to better understand guidance they can give within the meaning of financial advice) a step further, we also recommend insurers should provide an annual estimate of sum insured for home building insurance to consumers.

We acknowledge industry concerns that requiring insurers to provide an updated estimate of the sum insured and providing a factual warning about the dangers of underinsurance could be considered personal advice under chapter 7 of the Corporations Act. For the avoidance of doubt, we recommend amending chapter 7 of the Corporations Act to exclude advice by an insurer fulfilling this obligation from being considered personal financial advice. However, we would still expect estimates to be made with due care and skill.

We also note that insurers’ concerns about providing personal advice could be addressed through recommendation 18.3, where we recommended the ICA engage with ASIC to gain a clearer understanding about the nature and type of information insurers can give to consumers within the meaning of providing general financial advice under chapter 7 of the Corporations Act.

Requiring the insurer to estimate a sum insured for their customers would give the insurer an opportunity to explain their estimate if requested by the customer, and improve consumer confidence in the estimates produced by the calculators. It would also give insurers a greater incentive to work with third-party calculator providers to ensure the accuracy of the estimates produced.

\textsuperscript{586} ICA Report *Too Long; Didn’t Read: Enhancing General Insurance Disclosure*, October 2015.


\textsuperscript{589} ASIC report 416, *Insuring your home: Consumers’ experience buying home insurance*, October 2014, p. 76.

\textsuperscript{590} *Corporations Act 2001* (Cth), section 766B(6).

Recommendation 18.4

Insurers should estimate a sum insured for customers

Insurers should be required to estimate an updated sum insured for their home insurance customers and advise them of this estimate on their renewal notice.

This estimate should note when the information used by the insurer to form the estimate was last updated by the consumer, and direct the consumer to contact the insurer if renovations/alterations to their home had occurred since then. Where the sum insured estimate is materially higher than provided for under the policy, the renewal notice should also include a warning to the customer about the dangers of their property being underinsured.

Advice given by an insurer fulfilling this obligation should be excluded from being considered personal financial advice.

Consumers need to understand that the sum insured refers to the cost to rebuild and not the market value of their property. They also should understand that, in some cases, the sum insured may also need to cover costs involved in the repair or rebuild like debris removal, legal costs, and temporary accommodation costs. In some cases a policy may provide separate benefits for some of these items equal to a percentage of the sum insured amount. Our concerns are illustrated by the example in box 18.2 where documents we obtained from one insurer shows it knowingly had customers that included land value in the sum insured.

Box 18.2: Calculating sum insured and the no advice model

In documentation obtained from one insurer, a modelling exercise it undertook did not reveal a systematic pattern of underinsurance. There was some evidence that customers insuring very high value properties had included the land value in their sum insured. However due to the no-advice model, the insurer determined it was unable to propose to consumers to consider how appropriately they had calculated their sum insured.

Improved disclosure of the costs that count towards ‘sum insured’ for buildings will help consumers select an appropriate sum insured for their property and reduce the risks of underinsurance.

Recommendation 18.5

Disclose costs that count towards ‘sum insured’

Insurers should be required to clearly disclose the types of costs that will count towards the sum insured amount for buildings (such as the costs of demolition, debris removal or for professional fees) where these are not provided for through a separate allowance under the policy. This information should be provided on any sum insured calculators used by the insurer and alongside the sum insured figure.

This will help consumers understand why and how calculator estimations can differ and empower them to make more informed decisions about their nominated sum insured. It should be provided alongside the sum insured amount for a property, including in quotes for new policies, renewals and on certificates of insurance.

We recognise the tension that exists between avoiding potential under-insurance by increasing sums insured, and the resulting impact on the affordability of insurance especially in parts of the country where premiums are already very high. Consumers are likely to prefer to under-insure their homes if it means being able to afford insurance at all. However it is critical that consumers understand the risks of such a decision.
In its October 2020 report, the Royal Commission into National Natural Disaster Arrangements discussed that confusion over debris clean-up arrangements was a particular concern for the 2019-2020 bushfire season. The Royal Commission recommended that governments outline in advance the circumstances and timeframes over which they will or will not provide assistance for debris clean-up, to avoid adverse impacts on consumers and insurance markets and provide national clarity on recovery support. The Royal Commission added that if governments choose to provide assistance in debris clean-up or in other matters, they should be careful not to create incentives that result in inequitable outcomes, or result in individuals and households reducing insurance cover and thereby shifting the costs of risk to governments.

The Australian Government’s response supports this Royal Commission recommendation. The government notes its commitment to cost-share disaster related debris removal and clean-up activities is publicly available in the Disaster Recovery Funding Arrangements. In addition, the Commonwealth is reviewing the Disaster Recovery Funding Arrangements to develop an ‘off-the-shelf’ debris clean-up assistance package for severe and catastrophic disasters.

### Improved price transparency for optional inclusions and exclusions

Consumers with a clear understanding of the pricing components of their insurance products are likely to make more informed decisions about their choice, and have an improved capacity to shop around and switch insurers.

While some insurers already provide a breakdown of the components of the premiums they offer, this is not always the case. Choices made by consumers, in particular for flood coverage or raising or lowering the excess, can have a significant impact on premiums. For example, as reported in chapter 3, we found that raising the excess for home and contents products from a median of $1,500 to $5,000 could lower premiums by between 15 and 19%. Conversely, lowering the excess from a median of $1,500 to $500 increased premiums by between 15 and 16%.

Current visibility over the components of premium pricing is very poor, and it is difficult for consumers to determine or easily compare the price impact of optional policy inclusions and exclusions (such as flood, accidental breakage cover or extended replacement policies) which are available in home and contents policies. We are concerned this has already led to customer confusion.

To help new and renewing customers make a more informed decision about which product features, excess levels and sums insured to select, we recommend that insurers should be required to disclose the premium costs or saving for each optional inclusion or exclusion they offer to a consumer. This could be as a percentage surcharge or discount, or a specific dollar amount. In relation to the sum insured, this would be with reference to the price effect of selecting an incremental increase, or decrease, in the sum insured amount (for example, for each increase or decrease of $25,000 for a building policy).

As we discussed in chapter 7, price competition in northern Australia is soft in certain areas. Where consumers are able to better consider the cost of inclusions and savings from exclusions, this will provide incentives for insurers to provide better product features at more competitive prices.

We do not consider adding a price component to optional inclusions and exclusions will confuse customers. Many insurers already provide consumers with a list of optional inclusions and exclusions when providing them with a quoted premium.

If insurers are required to offer a standard cover product in the future, this disclosure will be improved as the standard cover product provides a better comparable benchmark and would likely be more useful to consumers comparing insurance products. However, we do not consider the disclosure would only be effective if a standard cover product was introduced. Consumers will still more easily be able to identify what the cost of inclusions are from their insurer and competing insurers, even if the precise terms do differ. If anything, this is more likely to prompt a consumer to consider why two insurers’ apparently similar inclusions differ in price.
Recommendation 18.6

Disclose premium impacts of optional inclusions and exclusions

Insurers should be required to disclose the premium cost or saving for each optional inclusion or exclusion they offer to a consumer. Insurers should also indicate the premium cost or saving associated with incremental changes in excess levels and sums insured. This information should be provided to a consumer when an insurer provides a quote for a new policy and on a renewal notice.

Providing consumers with information about the cost impact of optional inclusions and exclusions (e.g. flood cover, accidental breakage cover) as well as variable costs (such as changing an excess or sums insured) will allow consumers to make more informed decisions about their choice of cover.

Can comparison websites help consumers choose?

Websites that compare products on price and/or features have become popular across many industries over the past decade including in energy, telecommunications, financial services and health insurance.

Comparison websites (generally) can help consumers to:

- minimise their search time by visiting just one website to see a wider range of choice;
- more easily compare products that are often quite complex or involve a long-term or significant financial commitment;
- find products or services that best match their preferences by allowing them to filter or search by features and/or price.

By facilitating more informed consumer decision making, comparison websites can also support competition between suppliers and put downward pressure on prices. They can also provide an opportunity for new entrants to increase consumer awareness of their brand at relatively low cost, reducing a barrier to entry.

A number of commercial websites are currently operating in Australian markets for home and/or contents insurance (such as iSelect, Choosi, and Compare the Market). In 2015, the Australian Government launched its own independent website specifically for north Queensland. The North Queensland Home Insurance (NQHI) website, run by ASIC, followed Treasury’s 2014 consultation on options to address the high costs of home and strata title insurance in north Queensland. The consultation recognised that strata insurance is more complex and not well-suited to a comparison website.\(^\text{594}\)

While comparison websites generally can support consumer decision making, they are not a complete source of information and still require consumers to consider how relevant the results are compared to their own needs and preferences. Commercial websites attract a range of additional concerns such as not comparing product offerings from all providers in a market, conflicts that can arise when some sites are owned by the providers they are comparing, and the revenue streams that fund the provision of the website. We consider conflict and disclosure in chapter 19.

In 2018, only two of the eight insurers who hold the largest market shares in northern Australia had arrangements with commercial comparison websites. Consumers who use these sites do not see insurance products offered by insurers who do not participate. Suncorp explained in its submission to the Senate inquiry that it does not participate due to its concerns with the operation of the sites and the accuracy of the information being presented to consumers.\(^\text{595}\) Similarly, Allianz submitted that it does not participate as commercial websites charge a fee for service and therefore impose an additional cost that would need to be passed on to customers.\(^\text{596}\)

---


\(^{595}\) Suncorp submission to the *Senate inquiry into Australia’s general insurance industry*, p. 12.

\(^{596}\) Allianz submission to the *Senate inquiry into Australia’s general insurance industry*, p. 2.
In 2017, the Senate Committee considered the costs and benefits of establishing an independent home, strata and car insurance comparison service to apply more nationally and recommended the government should complete a detailed proposal for a home and car comparison tool. The Australian Government responded that there are already a number of commercial websites and there is no clear evidence of market failure in either the insurance industry or comparison website market to suggest that government intervention is warranted. The government’s response did, however, note the Committee’s related recommendation for ASIC to undertake a review of the NQHI, saying ASIC should consider a review once the final report of the ACCC’s inquiry is released.

Our issues paper invited comments from consumers about examples of tools, technology or information in other industries that could be used to make insurance easier to understand. A number of consumers said it would be good to have one impartial website where consumers could go to compare prices and policies, and all insurers should be required to participate. Several of these consumers mentioned the Australian Government’s private health insurance comparison website as a starting point.

Our consultation did not reveal a high level of awareness of the NQHI website among north Queensland locals, suggesting there may be scope for a renewed awareness effort. Of the consumers who had used either the NQHI or a commercial website, some agreed it was helpful for research but others reported the comparison websites they had tried advised there were no policies available to them in their area. Some consumers also commented that comparison sites were not useful as they don’t include all insurers, don’t show the components of premiums and they don’t represent an individual’s needs.

Insurers maintain scepticism about the value of a geographically broader (independent) home and contents insurance comparison website. Allianz submitted to our issues paper that it would likely exacerbate premiums in high risk areas and reduce competition (it did not provide a reason for this in its submission to our inquiry), while Suncorp noted that price would become the key determining feature, which is likely to have a negative impact on the industry by stifling the development of innovative product features and business models. IAG similarly submitted that a comparison service would only emphasise price rather than educate consumers on the insurance they require.

Other stakeholders, such as the Actuaries Institute and Consumer Action Law Centre, remained open to the possibility of a national independent website, but caution that if one is to be established, it must be able to accommodate comparing policies appropriately and not focus consumers just on price but rather to consider risks, needs and preferences.

Measures undertaken to improve the comparability of insurance products across the market, especially on non-price factors, would likely make it easier for insurance comparison websites to provide consumers with a more useful and comprehensive view of product variations across markets.

---

597 Senate Economic Reference Committee, Australia’s general insurance industry: sapping consumers of the will to compare, August 2017, p. 43.
599 See for example, submissions to the NAII issues paper from Anon 126, Anon 46, P. Kelly, and M. Gray.
600 The Australian Government’s website, PrivateHealth.gov.au is managed by the office of the Private Health Insurance Ombudsman.
601 In its submission to the Senate inquiry into Australia’s general insurance industry, ASIC reported the NQHI website had 13,356 sessions for the period 31 March 2015 to 31 December 2016.
602 In its submission to the Senate inquiry into Australia’s general insurance industry, August 2017, Allianz explained that its experience with insurance comparison sites shows that it biases consumer purchasing behaviour towards an unhealthy focus on price over the qualitative features of insurance products. Customers faced with a range of prices for insurance cover offered by a number of well known, established and trusted brands, tend to gravitate to the lowest price. Even if the lowest priced insurer has best practice pricing capability and does not believe it has mis-priced the risk, it then suffers a different type of insurance risk. That is, accumulation risk, or the risk of accumulating an excessive share of customers with a particular risk profile, which may exceed the insurer’s risk appetite for customers with that risk profile.
603 Allianz submission to NAII issues paper, p. 1; Suncorp submission to NAII issues paper, p. 26.
604 IAG submission to NAII issues paper, p. 28.
605 Actuaries Institute submission to NAII issues paper, p. 8; CALC submission to Senate inquiry into Australia’s General Insurance Industry, August 2017, p. 3.
We acknowledge concerns that insurance comparisons websites may have the potential to over-simplify the decision and lead consumers to focus their attention on price, rather than important differences in policy cover and terms and conditions. However we consider that these concerns can likely be managed through thoughtful website design.

In recommendation 18.7, we propose the government give further consideration to a new national home insurance comparison website. To be optimally effective, we consider such a website must:

- require the participation of all insurers active in relevant markets.
- be visible. That is, consumers need to be aware that it exists and there is a benefit to using it.
- be capable of providing information and allowing consumers to compare policies by features, not just by price. Implementation of standard definition of key terms, a product based on standard cover and more transparent pricing of premium components, as we have also recommended, would facilitate more simple and meaningful comparisons.
- make it very easy for consumers to act on the results of their research in a timely and convenient way. This could, for example, be achieved through a ‘live’ quote comparison feature, which allows consumers to proceed directly to the insurer’s website to purchase based on information they have already provided.

**Recommendation 18.7**

**National home insurance comparison website**

The Australian Government should consider developing a national home insurance comparison website. It should require the participation of all insurers active in relevant markets, allow consumers to compare policies by features, and make it quick and easy for consumers to act on the results.

An independent insurance comparison website may facilitate more informed consumer choice by assisting consumers to quickly and easily find insurers in their area and offering policies that meet their needs. Comparison websites can provide an opportunity for new entrants to increase consumer awareness of their brand at relatively low cost, reducing a barrier to entry. Enhanced comparability of products, such as through standardised definitions (recommendation 17.1) and mandated standard cover (recommendation 17.2), will assist in the effectiveness of such a website.

We acknowledge that an improved standard cover regime and standardised definitions would certainly improve the effectiveness of a national home insurance comparison website, as it would allow consumers to compare like products. However, we do not consider it a prerequisite for implementing a national comparison website.

We consider that it is possible to improve upon the model adopted by ASIC for its NQHI site to avoid many of the issues raised in submissions to our issues paper and first interim report and make comparisons easier for consumers. These include requiring all insurers to participate, encouraging a focus on features of the product and not just the premium, and making it easy for consumers to act on the results of their research in timely and convenient way. ASIC’s NQHI site currently only uses a consumer’s postcode and sum insured information to provide an indicative quote range. We consider that a national comparison website should provide quotes at the address level using more granular information and data input by the end-user (such as building construction type and building year). This will improve the accuracy and usefulness of the quotes compared.

We do not consider a comparison website would necessarily cause insurers to lower their sum insured estimates (in order to provide a lower quote). We reject the notion that making comparisons on price or other product features easier for consumers should be avoided, due to a risk that insurers may respond inappropriately. An insurer that intentionally underestimated sums insured for potential customers would be at risk of contravening existing consumer protection laws. A comparison website where different insurers each provided a sum insured estimate would in fact highlight to consumers any such

---

606 See for example, Allianz submission to the *Senate inquiry into Australia’s general insurance industry*, p. 1.
differences in estimates between insurers. Alternatively, where a comparison website is designed to enable users to specify their own sum insured, this concern would not arise at all.

We also consider requiring insurers to participate in a national home insurance comparison website will improve consumers’ ability to compare and switch, and will improve price competition in northern Australian markets. We do not consider this will necessarily lead consumers to emphasise price over appropriate cover, but rather increase transparency of insurance product pricing so consumers can make more informed assessments of the products available. Further, we also consider that a comparison website should include information about standard inclusions and exclusions under the policy, allowing consumers to compare other aspects of cover.

The role of insurance brokers

While the use of insurance brokers is very common for strata insurance, individual property owners typically engage brokers less often as home and contents insurance products are less customised, more readily available and premiums relatively lower.

However in northern Australia, our consultation with local residents and property owners suggested a higher than usual awareness of the role of brokers. It seemed to us that increasing prices and/or a perceived lessening of choice has forced many consumers to be relatively well engaged with their insurance and how brokers can assist.

Some individuals reported success using brokers to obtain insurance in an otherwise difficult-to-insure area or postcode. Others provided us with examples of their broker’s efforts to obtain a range of quotes for them, but which still showed that some or most of the insurers approached declined to provide a quote. Others were not convinced that brokers were helpful, suggesting they were more expensive and used preferred insurers that would give them the highest incentive. In its submission to the inquiry, Legal Aid Queensland suggested that in its experience, that many consumers are unaware of brokers, or do not view them—rightly or wrongly—as adding any value.607

Box 18.3: Extracts from submissions from local residents and property owners

‘Brokers are generally just selling the products that get them highest commission—(they) don’t really fully understand the complex challenges and risks of northern Australia and the policy fine print.’608

‘We tried a broker. Most appear to be subsidiary to insurance companies. The rest were locked in by available companies.’609

‘We use a broker all the time. It’s the only way to get cover. Most insurance companies won’t deal with us unless through a broker.’610

As mentioned previously, brokers are able to provide personal financial advice to consumers. They are required to act in the best interests of the consumer in arranging insurance, but typically obtain a commission from the insurer for selling a policy. The role of intermediaries, including broker arrangements, commissions and potential for conflicts are discussed in detail in chapter 19.

18.3 Responding to the pressure of price

Participants in our public forums spoke of insurance premiums rising substantially, pushing them into real financial distress. Some said they couldn’t afford to stay in their town, but they couldn’t afford to go. They explained the financial burden of high insurance cost is exacerbated by significant falls in the value of their properties, a point that was particularly stressed at the forums we held in Karratha and

607 Submission from Legal Aid Queensland to NAII issues paper, p. 9.
608 Anonymous 142 submission to NAII issues paper.
609 Anonymous 13 submission to NAII issues paper.
610 Anonymous 122 submission to NAII issues paper.
Broome. People told us they wanted to have options such as insuring their properties at market value or even insuring just against the amount owed on a mortgage, but said insurers required them to insure at replacement values. They spoke of governments wanting people to live and work in regional Australia, but that the cost of living there was becoming prohibitive.

As we reported in our discussion in chapter 3, there are many areas in northern Australia facing an average annual home and contents premium above $4,000. In its submission to our issues paper, Allianz said the cost of home insurance could be equivalent to the annual income of a person on the aged pension that might own such a property.  

At such extreme levels, insurance premiums start to drive other behaviours and decisions that carry a range of negative consequences. For example deliberate underinsurance, purchasing of cheaper policies that do not meet a households’ needs, non-insurance, a shift away from investment in residential property, and discouraging population growth in whole regions.

Box 18.4: Extracts from submissions from local residents and property owners

‘As I am not allowed to rent my property without taking out home insurance I have no choice but to pay an excessive premium and to try and keep the costs down I have opted for a massive excess. In other words the only insurance claim I will ever make in the near future will be for something major or total destruction of my house. My insurance premium will no longer be valid for “normal” everyday claims like a broken window, broken water pipe that damages a bathroom vanity or a fallen tree damaging my roof.’

‘Now that we have retired and our income is fixed, the only option left open to us is to get rid of house insurance all together.’

Giving consumers more time to shop around and pay their premiums

A renewal notice serves as an important prompt to consumers to consider switching. The Insurance Contracts Act currently requires insurers to provide written notice no later than 14 days before a contract of general insurance is due to expire and indicate whether the insurer is prepared to negotiate to renew or extend the cover.

We consider the current minimum timeframe does not provide consumers with sufficient time to consider their renewal quote and explore their insurance options. It may also not provide sufficient time for some consumers to have ready access to funds to make their payment by the time it falls due, or to pay in an annual lump sum to avoid an instalment surcharge. In order to give consumers more time to shop around and pay their premium, we consider renewal notices should be provided at least 28 days before the policy expires.

As many insurers already provide up to 28 days’ notice, we do not consider requiring them to do so will unduly increase the regulatory burden on them, especially as they will already have processes in place to send out renewal notices by a certain date and sending further reminders (for example by text message or email) is a common practice.

---

611 Allianz submission to NAII issues paper, p. 15.
612 Terry Scott submission to NAII issues paper.
613 Anonymous 141 submission to NAII issues paper.
614 Insurance Contracts Act 1984 (Cth), section 58(2).
Recommendation 18.8
Renewal notices should give 28 days’ notice

Insurers should be required to provide renewal notices for home, contents and strata insurance no less than 28 days before the expiration of their insurance cover, with a reminder to be sent no less than 7 days before expiration if it has not been renewed.

The Insurance Contracts Act currently requires no less than 14 days’ notice. The current minimum timeframe does not provide consumers with sufficient time to consider their renewal quote and explore their insurance options. It also may not be sufficient time for some consumers to have ready-access to funds, including to avoid instalment surcharges.

Disclosing the premium, sum insured and excess on a renewal notice

During our public consultation, we heard consumers say that as a result of monthly payments and/or negotiated discounts after receiving an invoice, they sometimes were not aware of the final amount of the premium they had actually paid. The government agreed with the recommendation of the Senate Committee to require insurers to disclose the previous year’s premium on insurance renewal notices. Further to us making a recommendation to this effect in our first interim report (see recommendation 18.9), we now welcome a new requirement of the incoming General Insurance Code of Practice 2020 that insurers provide renewing home and/or contents customers with a comparison between this year’s and last year’s premium.

However we maintain our recommendation goes a step further, requiring insurers to also disclose this information to strata insurance customers and to also disclose the excess and sum insured of the expiring policy. The premium should always be considered alongside these two important factors.

Recommendation 18.9
Disclose the premium, sum insured and excess on a renewal notice

Insurers should be required to clearly disclose, on renewal notices for home, contents and strata insurance, the sum insured and any excess of the expiring policy along with its premium. Insurers should also provide this information upon request.

This will allow consumers to easily identify how the insurer proposes to vary these terms from the previous year and seek explanation of any changes.

Negotiating for a lower premium

Triggered by premium increases, many local residents and property owners told us they contacted their existing insurer in an attempt to negotiate their premium. While this was often helpful, it only helped so much. Of the towns where we held public forums, participants’ anxiety was particularly evident in Broome and Karratha, where residents spoke of receiving renewal notices in the order of $9,000 to $12,000 per year—and sometimes even higher. Many of these residents stated they achieved substantial reductions by directly negotiating with the insurer and challenging their insurer’s assessment of the risk of their property. Sometimes they rang multiple times, each time negotiating an incremental discount.

While consumers welcomed any reductions they could negotiate, we had a sense that consumers’ success, in some instances, served also to compound their disillusionment with insurers and the degree to which they trusted the setting of the premium. If a reduction of several hundred dollars to even over

---

615 See for example, Broome public forum summary p. 2.
617 General Insurance Code of Practice 2020, section 50.
$1,000 could be achieved by haggling, they wondered why it was necessary to price it so high without explanation to begin with.

**Switching to another insurer**

Suncorp submitted that the ability for consumers to easily switch insurer is greater than in any other market in the financial services sector. It said this is due to most products having a 12-month term, giving consumers a reminder and a prompt to consider other products that may exist that best suit their needs and circumstances. IAG similarly submitted about the ease of switching:

> It is relatively quick and easy to switch insurance providers. Nearly all insurers provide customers with the ability to get a quote and buy an insurance policy online. Switching only takes a few minutes and does not require income, bank or property statements. In comparison to other financial products like credit, personal loans or mortgages where evidence and pre-approval is required; we believe that there are low barriers to switching between general insurance providers.

Switching fundamentally relies on consumers having a choice of insurers offering competing products. However, the limited availability of insurance in many parts of northern Australia is, at best, offering consumers limited options to compare, and in some cases, no options. While it may be easy for some consumers to switch, the consensus from our public consultation was that it is not so easy.

We heard the frustration of consumers who went to all the effort of filling in online forms or providing all the required information, only to be told that an insurer would not provide a quote for their property. That comparison websites did not return products for some postcodes. That products offered by other insurers were significantly over-priced. That researching and comparing is so time consuming and so much effort. For some consumers, the lure of a new discount attracted them to switching, but for others losing an existing discount (such as a loyalty or multi-policy discount) was perceived as a barrier.

Our analysis in chapter 7 showed that in 2017–18, around 27% of discounts received by customers are for multi-policy discounts, and around 12% for staying with an insurer for multiple years. The most frequent discount customers received is for a no-claim bonus, which can often be recognised by another insurer.

As illustrated by the examples in box 18.5, many local residents and property owners across northern Australia conveyed a sense of cynicism towards trying to investigate alternate policies.

**Box 18.5: Extracts from submissions from local residents and property owners**

> ‘It is alot of effort as you have to compare “apples” with “apples” and it involves alot of reading which is very confusing and most times you feel like you require a legal representative to help you understand the terms and conditions.’

> ‘I used to ring around every year, this year I have rung some and used websites to get quotes. I generally have to put aside a whole day to ring around and sit on the computer to get thru 10-15 insurers, generally frustrated tired and confused by the end of the day. I am not totally computer savvy either.’

> ‘It’s time consuming & sometimes a waste of time looking for new house & contents insurance because it’s pointless if certain companies won’t insure North Queenslanders.’

> ‘I looked up on the websites of a number of insurers. Its a lot of work to put in all the details and in the end being declined all together because of where you live or getting a quote for a ridiculous price.’

---

618 Suncorp submission to NAII issues paper, p. 29.
619 IAG submission to NAII issues paper, p. 26.
620 Anonymous 99 submission to NAII issues paper.
621 Anonymous 25 submission to NAII issues paper.
622 Anonymous 46 submission to NAII issues paper.
623 Anonymous 76 submission to NAII issues paper.
Of the local residents and property owners across northern Australia who responded to our online consultation, many indicated they had switched, or were thinking about switching:

- Over half of the consumers who responded indicated that they had switched policies. Most of these consumers switched policies for a better premium. Many commented that it was very time consuming and a lot of effort. Others commented that it was difficult to compare policies and understand definitions.
- Of those consumers that had switched policies, several indicated that they switch regularly, many yearly.
- Around one quarter of consumers indicated that they had considered switching but could not find better offers, had limited or no other options.

According to data we obtained from insurers, the average retention rate across insurers in northern Australia in 2017–18 was around 84%, which indicates around 16% of consumers either let their insurance lapse or switched to a new insurer. The rates of retention are broadly consistent between northern Australia and the rest of Australia. We did not observe significant correlation between average premiums and lapse rates. Our findings about the nature of competition and choice for consumers in northern Australia are discussed in detail in chapter 7.

**Switching and strata insurance**

Insurance brokers provided similar views, particularly in relation to strata insurance. NIBA submitted to our issues paper that switching insurers is a matter considered by insurance brokers every day and almost always, there is no alternative cover available.\(^{624}\) The Council of Queensland Insurance Brokers submitted, ‘Market capacity is limited. There have been incidences in the past when our members were dissatisfied with an insurer and wanted to move their portfolio only to find that most insurers were close to capacity and unable to accept a large portfolio of business.’\(^{625}\)

The Strata Community Association (Qld) surveyed its members to inform its submission to our issues paper. Seventy-five per cent of SCA (Qld)’s members who responded to its survey indicated that their clients had very limited choice, while the remaining 25% indicated choice was limited. Eighty seven per cent of the respondents said that they had experienced an inability to obtain insurance for one of their clients.\(^{626}\)

In relation to strata, other than the lack of policies available, concern has been expressed about body corporate managers arranging and managing insurance when they may have little or no training in or understanding of insurance issues, impacting on the occurrence or appropriateness of switching.

**Increasing excess to reduce premium**

Many consumers who participated in our public consultation discussed that they had, often multiple times, increased their excess to reduce their premium. While increasing their excess had made their premium more affordable, the price impact was not usually enough to mitigate their concerns about cost altogether. In fact some feared they had, or would eventually, need to raise their excess so high that they may not be able to afford to pay it if they did need to make a claim.
Box 18.6: Extracts from submissions from local residents and property owners

‘I am down to just insuring building with a huge excess just trying to make it affordable and have some cover.’ 627

‘We have not yet had to claim for any event…we are insured for replacement value but have increased our excess to reduce the premium.’ 628

‘To manage to cost of insurance we have put extremely high excesses on everything and now we can hardly claim anything. If a window is accidently broken, we have to pay for it. If something fuses, we have pay for it. We now wonder is it worth having insurance or should we just put the money in the Bank.’ 629

The ICA suggested in its submission to our issues paper that more consumers in the north generally selected lower excess payments compared to policyholders in the south. The ICA said choosing a lower excess facilitates consumers lodging more frequent claims (because the excess is not such a deterrent), but leaves consumers paying higher premiums). 630 Suncorp similarly suggested in its submission that there was no trend toward high excesses in high risk locations, with 92.5% of its north Queensland policyholders choosing an excess of $1,000 or less, compared to 93% across Queensland. Suncorp’s submission said that minor claims represented 86% of claims filed, and 29% of the total claims cost. It said most consumers want to have the comfort of knowing they are covered, even for small damage caused by weather events. 631

Chapter 3 sets out a detailed analysis of trends in premium prices, including excess levels selected by customers in northern Australia. Our analysis confirmed what stakeholders were telling us. We found that average excess levels selected by customers in north Queensland and north Western Australia are generally much higher compared with the Northern Territory and the rest of Australia. Our data also shows that there has been a greater increase in average excesses across north Queensland and north Western Australia compared to the rest of Australia.

Decreasing sum insured and/or coverage to reduce premium

Only a small proportion of consumers who participated in our online consultation responded that they would not reduce their level of coverage and are not prepared to underinsure. However, many consumers who participated in our public consultation discussed decreasing their sum insured and/or their coverage in an attempt to reduce their insurance premiums.

---

627 Anonymous 33 submission to NAII issues paper.
628 N. Tillett submission to NAII issues paper.
629 Anonymous 99 submission to NAII issues paper.
630 ICA submission to NAII issues paper, p. 28.
631 Suncorp submission to NAII issues paper, p. 27.
Box 18.7: Extracts from submissions from local residents and property owners

‘I have maintained adequate cover for my building and contents but I have significantly reduced the extra ‘frills’ to make it more affordable. I now treat it as ‘disaster insurance’... I have had to remove broken glass, motor burnout, food spoilage, contents away from home and other extras and increase my excess to reduce my premiums to a more affordable amount.’

“Our insurance is basically a piece of paper offering us little as we can’t afford the policy that would be best suited for the property.”

“We insure to the minimum requirements, and also exclude flood cover due to our hillside location.”

One of the causes of underinsurance includes consumers setting their replacement value amounts too low. This can be due to a lack of knowledge and the specialist skills required to more accurately estimate the cost of rebuilding a home and replacing home contents, but it could also be part of a consumer’s deliberate effort to reduce an insurance premium. Consumers are generally able to adjust their sum insured, however we understand some insurers won’t allow a reduction below certain amounts as a way of ensuring consumers are not underinsured.

The Productivity Commission found that many customers underestimate, or are sceptical about, the risks they are exposed to. The same report also found that while flood cover has increased significantly, some stakeholders had raised concerns that the introduction of flood insurance may be leading to underinsurance, as some households are opting out of insurance altogether to avoid paying large premiums.

The inclusion and exclusion of flood cover was also as a key theme of our public consultation. We received mixed feedback, with some people concerned that they wanted flood cover and either didn’t think they could get it or couldn’t afford it, and others who didn’t want it and were forced to pay to include it.

In early 2014, Choice examined 64 household building and contents insurance policies across 29 insurance brands nationally. Only four insurers excluded flood cover from their policies, and a further three allowed customers to opt out.

Of the major insurers currently supplying insurance in northern Australia, some offer flood cover as optional (including Allianz) and for others it is mandatory (including Suncorp, CGU, QBE and RACQ).

The Financial Rights Legal Centre submitted that, in its experience with operating the Insurance Law Service phone line, consumers are generally happy about signing up with a cheaper insurer, with a product with less coverage until they have a claim rejected.

Owners of strata properties were particularly fearful of rising premiums, discussing they were bound by law to insure their buildings and were running out of options (see some examples in box 18.8). Some said they knew of instances where strata properties had been without insurance because they simply could not find an offer of cover, regardless of cost. Submissions from strata representative groups reiterated these concerns.

---

632 Anonymous 143 submission to NAIi issues paper.
633 A. Briginshaw submission to NAIi issues paper.
634 N. Tillett submission to NAIi issues paper.
637 Based on publically available information in insurers’ PDSs.
638 Financial Rights Legal Centre submission to NAIi issues paper p. 6.
**Box 18.8: Extracts of submissions from strata property owners**

‘Price is always important. We own a Management Rights business in a Strata Title complex with our main business Holiday Letting. Insurance is compulsory for us and the legislation we operate within (BCCM Act) stipulates that the buildings and common property must be insured at Full replacement cost. This means the Body Corporate (BC) must insure the property for reinstatement of the property to its condition as new even if the property is 30 years old. Not to its condition as it was just before the insurance claim. To determine the replacement cost we must have a formal Valuation of the property every 5 years.’

‘I own several properties in the Northwest and the issue is that current WA laws require strata titled properties to be well OVERINSURED.’

‘Re: reduce our level of coverage. Strata legislation forbids us to do so, so we can’t. Those not in strata properties are reducing their coverage.’

**Non-insurance: a last resort**

During our public consultation, local residents and property owners across northern Australia emphasised their grave concerns about the affordability of insurance. We have documented those concerns already throughout this report and included some typical comments we received in box 18.9. We heard more than a few instances of people across northern Australia making a deliberate decision to not renew their policies, usually as last resort. It was not clear how many of these people were doing so (knowingly or unknowingly) in breach of a mortgage condition to hold current building insurance.

**Box 18.9: Extracts from submissions from local residents and property owners**

‘We are now teetering on the point of having to forgo insurance completely due to the huge increases every year. We do the rounds of insurance companies every year trying to get the best price, but some will not even quote now because of the location.’

‘[Insurer A] told us they could no longer insure us (something to do with their underwriters). We then checked as many insurance companies as we could and the only two that would insure us were [Insurer B brand 1] and [Insurer B brand 2] but their premium was around $6,000 pa. We then decided to risk being uninsured as we could not afford that as we are pensioners. This was a very difficult solution but the only one we could make.’

‘I’m not insuring anything and putting the money I would have spent into a savings account.’

At the time we commenced our inquiry, we were not aware of any current study exploring the rates of non-insurance in northern Australia specifically. In its interim report, the NAIPT referenced the ICA as saying there does not seem strong support for the idea that insurance premiums are causing a greater number of people in northern Australia to non-insure compared to the southern regions. However this observation was not repeated in the final report and our own preliminary analysis of the rates of non-insurance in northern Australia gave us reason for concern.

We undertook to explore the extent and reasons for non-insurance throughout northern Australia, and discuss our findings in chapter 15.

639 K. Beck submission to NAI issues paper.
640 D. Warburg submission to NAI issues paper.
641 M. Shaw submission to NAI issues paper.
642 Anonymous 141 submission to NAI issues paper.
643 P. Crewe submission to NAI issues paper.
644 S. Clayton submission to NAI issues paper.
18.4 Addressing information asymmetry in insurance

More granular data, and increasingly sophisticated analysis of that data, is allowing insurers, and also consumers, to identify and understand risks more clearly. This offers significant benefits to the community through improved risk identification, product innovation, and mitigation opportunities, but it also raises new concerns with issues of risk segmentation, access, sharing, and privacy.

Understanding risk

To make good decisions about insurance, consumers need to have an understanding of their risk profile and the likelihood of their property experiencing damage. Participants in our public consultation repeatedly raised concern that insurers were simply determining their premium by their postcode, not by the individual characteristics and risk of their property. They called for better access to the information that insurers relied on to make assessments about risk.

Box 18.10: Extract of submission from a local resident

'I have tried to insure my house with [Insurer A]. However they tell me they can’t insure my house due to flood mapping. I asked where they get their flood mapping advice as my house has never been in a flood zone. They gave me their 3 sources they used. I contacted all 3 sources and my house was not on [any] of them. I then queried this again with [Insurer B]. They told me they ‘put a buffer zone on the flood zone’. I then put in a complaint about this. They then decided they would insure me but quoted me a ridiculous price of thousands of dollars basically obviously to get rid of me...

Consumer groups also consistently submitted to our issues paper that consumers should be aware of what factors influence insurers’ risk assessments and pricing to ensure they are provided an opportunity to properly inform an insurer of their circumstances. Legal Aid Queensland agreed that community insurance education programs are necessary to support and complement risk awareness and risk reduction. A key part of these programs is to help consumers understand that price reflects risk.

According to Financial Rights Legal Centre, insurers have become much better at clearly disclosing to consumers that they can opt out of flood cover, and warning people at renewal time that they have opted out. The Financial Rights Legal Centre submitted this has improved since the 2011 National Disaster Insurance Review; however, they still come across consumers that may have understood that they opted out of “flood cover” but did not understand the definition of “flood” or did not understand the risk of flood on their property.

Consumers should also be aware of what factors influence their risk assessment and pricing to ensure they are provided an opportunity to properly inform an insurer of their circumstances. By having information relevant to pricing assessment, consumers will:

- have the opportunity to explore mitigation measures to lower their risk and premiums (see chapter 21 on mitigation)
- be able to compare risk assessments and pricing decisions of different insurers.

The industry is putting a number of initiatives in place to help with consumers’ understanding of their risks generally. For example IAG has developed the NRMA Safer Homes resource to assist people to understand their own risk profile, mitigation options and insurance needs.

---

646 Anonymous 1 submission to NAII issues paper.
647 Legal Aid Queensland submission to NAII issues paper, p. 11.
648 Financial Rights Legal Centre submission to NAII issues paper, p. 9.
649 Legal Aid Queensland submission to NAII issues paper, p. 13.
650 IAG submission to NAII issues paper, p. 3.
Disclosure where premium increases have been ‘capped’

As described in chapter 10, insurers sometimes cap premium increases in a single year for existing customers where a change in premium pricing methodologies would otherwise lead to a substantial premium increase. This allows insurers to spread the premium increase over a number of years and reduce price shock to affected customers.

While we understand premium capping is used to protect a customer from a price shock, we consider the capping process results in less informative prices for affected customers.

If a customer is aware of their higher expected future premiums then it may provide a stronger incentive to consider mitigation activities, and would make any mitigation investment decisions more fully informed. It may also impact other financial and property decisions more generally.

Notwithstanding that premiums are set with a degree of commercial sensitivity, we do not consider that requiring insurers to provide policyholders with notice of future price movements would not provide competing insurers with information about each insurer’s assessment of a particular risk profile that is not already available to them.

Insurers only cap premiums for existing customers, and only when a change to their pricing approach would result in a substantial premium increase for the customer. New customers do not receive capped premiums, and are instead quoted the premium produced by the insurer’s new pricing approach. As a result, the uncapped premium amount is already publicly available by seeking quotes on insurers’ websites.

The only additional information competing insurers could potentially gain from this recommendation is how another insurer implements a capped price increase. For example, the timing of the intended increase. It also does not appear that this information will be readily accessible to competitors, as this draft recommendation requires insurers informing their customers only and does not expressly require the information to be disclosed on a renewal notice (which a rival insurer may request as part of its quoting process). We consider the benefit to consumers is far greater than any benefit insurers would gain from this additional information.

Further, we do not consider that providing customers with an estimation of their future premium, being subject to capping, would constitute a misleading representation provided the insurer has a reasonable basis for the estimation. To avoid confusion, an insurer could note in their disclosure that their assessment of the customer’s risk could change in the future, and with this so would their premium.

Recommendation 18.10

Disclosure where premium increases are capped

Insurers that have capped premium increases for particular risks (to slow the rate of adjustment to a higher technical price or other pricing objective), should be required to disclose this to an affected policy holder and provide an estimate of the timing and extent of premium increases that the insurer intends to apply in future.

This will allow consumers to recognise price as a signal of risk and prepare for potential future premium rises, including through more fully informed mitigation investment decisions.

Purchasing property and understanding the potential cost of insurance

Insurance premiums can add considerable cost to homeowners’ living expenses, particularly in northern Australia where premiums are high. If not considered by a consumer when purchasing a property, the high cost of insurance premiums could potentially result in financial hardship.

The issue of risk disclosure at the time of property acquisition was raised explicitly in several submissions to our issues paper. Cairns Regional Council pointed out that it’s possible to buy (and equally, rent) a property in Queensland without having any idea of its propensity to flood or its proximity to sea level.
and thereby storm surge risk. A local resident discussed a similar observation in their submission, sharing an example of a would-be purchaser of a new property seeking to back out of the contract during the cooling-off period having subsequently received quotes for building insurance that they decided would not be affordable.

As a first step, we consider states and territories should implement measures to improve the information provided to potential homebuyers by prompting consumers to consider likely insurance costs before purchasing real estate. A requirement to include a statement advising potential homebuyers to obtain an insurance estimate as part of their due diligence will help ensure consumers are more aware of the potential cost of insurance prior to purchasing a property, and can help reduce the instances of new homeowners experiencing insurance payment difficulties.

The October 2020 Royal Commission into National Natural Disaster Arrangements report made a complementary recommendation that state and territory governments should have processes in place to communicate natural hazard risk information to households (including prospective purchasers) in ‘hazard prone’ areas. The Australian Government supported in principle this recommendation.

If our recommendation that insurers are required to provide a standard cover product is accepted and implemented, then we also propose a second step such that state and territory governments should mandate that a current home (building) insurance premium based on the standard cover product be listed in a statutory information disclosure for a real estate transaction.

We consider that making the second step of this recommendation contingent on a standard cover product mitigates the risk of the quote being unrepresentative of the appropriate level of cover. We also do not consider there is harm in an agent selecting the cheapest standard cover quote for the area, as increasing price competition is one of the intended outcomes of requiring insurers to offer a standard cover product.

Because these statements are generally prepared by a real estate agent (or perhaps a conveyancer), we consider that any state/territory legislation should include a requirement that the person preparing the statement must not receive remuneration for including a quote on the statement to avoid conflicts of interest.

We also consider that these requirements may not be practical where a property is particularly high value, because it is often more difficult to obtain a quote for a property with a very high sum insured. Further, insurance affordability issues are less likely for consumers purchasing properties in this category. We therefore propose the requirements to provide an insurance quote would not apply where the estimated sale price of the property is above a threshold amount (for example, around $2 million).

---

651 Cairns Regional Council submission to NAI issues paper, p. 1.
652 R. Peterson submission to NAI issues paper.
Recommendation 18.11

Consider likely insurance costs before purchasing real estate

State and territory governments should implement measures to prompt consumers to investigate insurance costs when they are considering purchasing real estate.

As a first step, this should include a statement in a statutory information disclosure for a real estate transaction advising any potential purchaser to obtain an insurance estimate as part of their due diligence.

If recommendation 17.2 (to review and mandate standard cover) is accepted, state and territory governments should mandate that a current home (building) insurance premium based on the standard cover product be listed in a statutory information disclosure for a real estate transaction. This requirement should not extend to properties with a very high estimated sale price. State and territory governments should also mandate that vendors, or agents acting on their behalf, are unable to receive payment for the inclusion of a quote in the disclosure documents.

This will provide prospective purchasers with a clearer expectation of the possible insurance costs associated with the property.

Improving consumer awareness of personal information held by insurers

The 2020 General Insurance Code of Practice, that will come into effect on 1 July 2021, requires Code subscribers to comply with the Principles of the Privacy Act 1988 (Cth) and/or any relevant state or territory requirements when collecting, storing, using, disclosing and destroying personal information about applicants for insurance and policy-holders.  

Subject to limited exceptions, the 2020 Code provides that, if requested, a Code subscriber must give an individual, free of charge and within 30 calendar days, access to any information relied on in assessing their application for insurance cover, handling their claim, or in responding to their complaint.

Under the 2020 Code, if a Code subscriber determines that it cannot provide the applicant with insurance, the Code requires them to:

- provide reasons for that decision
- tell the applicant about their right to ask for information they relied on when assessing their application
- refer the applicant to either the ICA or the National Insurance Brokers Association of Australia, for information about options for alternative insurance or approaching another insurer or broker
- give information about their complaints process if the applicant informs them they are unhappy with the decision.

Insurers’ privacy policies (or ‘charters’) set out where and from whom they collect personal information, as well as where it is stored and the full list of ways it could be used. Privacy policies typically include language to the effect of ‘it’s up to you to decide whether to give us your personal information, but without it we might not be able to do business with you, including not paying your claim’. These are the standard terms on which people deal with insurers.

The Consumer Action Law Centre expressed strong views on privacy in its submission to our issues paper and discussed what it considered to be an inconsistency in how insurers inform people about

---

656 Paragraph 161 of the 2020 General Insurance Code of Practice.
their privacy policies.\textsuperscript{658} It said some insurers include privacy and third-party disclosure information in their PDSs. At least one policy that Consumer Action reviewed did not mention privacy at all and another gives the insurer broad remit to: ‘disclose your personal information to others with whom we have business arrangements for the purposes listed in the paragraph above or to enable them to offer their products and services to you’.\textsuperscript{659} Consumer Action was of the view that, considering that very few people look at the PDS when they buy insurance, consumers are therefore very unlikely to understand how information about them is collected, used and shared.

Consumers may request the information that is held about them by their insurer and some insurers encourage this through their privacy policy, for example the QBE policy states:

\begin{quote}
Our aim is to always have accurate, complete, up-to-date and relevant personal information. When you deal with us, you should check the information we hold about you is correct. You can contact our Customer Care team to request access to personal information we hold about you and correct any errors. Generally no restrictions or charges apply.\textsuperscript{660}
\end{quote}

The Financial Rights Legal Centre also raised strong views about privacy and information sharing in its submission, and in particular drew attention to Insurance Reference Services Limited (IRS), submitting that most consumers would not be aware that they can also request a copy of their own insurance claims report from the IRS.\textsuperscript{661} The Financial Rights Legal Centre indicated that it had discussions with insurers in 2016 and more recently in October 2017, and it was told that the IRS reports were haphazard, inconsistent and largely unreliable so that the current report provides minimal benefit to insurers or consumers.

According to its website, the IRS is a member-based organisation supporting Australian general insurance company members with understanding policy holder claims history, for the purpose of supporting claims management, claims investigation, loss assessment, fraud detection and risk underwriting. The claims database highlights previously denied, withdrawn, or cancelled claims and multiple or unusual claim patterns.\textsuperscript{662}

A ‘My Insurance Claims Report’ costs $22. It includes information that an individual has disclosed to insurance companies in the course of obtaining insurance and making a claim. It may include general identifying information (name, address, date of birth) as well as details of enquiries made by an agents of an insurer, such as loss assessors, and details of claims made under an insurance policies an individual has held. An individual can request changes to incorrect information.

The submission from Legal Aid Queensland to our issues paper also addressed privacy and personal information, stating that consumers should have full access to the information held about them by their insurer to ensure their risk assessment, pricing and claims assessment is based upon reliable information.\textsuperscript{663}

While many insurers may already provide customers with personal information when requested, we consider clearer disclosure of this option to consumers is required. Including this information on a certificate of insurance or renewal notice will increase the number of consumers who are aware of, and pursue, the option to access their personal information. This will help ensure the information insurers rely upon in their risk, pricing and claims assessment is accurate. As insurers already collect personal information and most have existing policies and practices that enable their customers to enquire about this information, we consider the regulatory burden in implementing this recommendation is very low.

\textsuperscript{658} Consumer Action Law Centre submission to NAII issues paper, p. 5.
\textsuperscript{659} Allianz, Home Insurance Product Disclosure Statement, prepared on 31 March 2015.
\textsuperscript{660} www.qbe.com/au/about/governance/privacy-policy.
\textsuperscript{661} Financial Rights Legal Centre submission to NAII issues paper, p. 22.
\textsuperscript{663} Legal Aid Queensland submission to NAII issues paper, p. 13.
Recommendation 18.12
Requesting personal information held by insurers

Insurers should be required to provide clear notice to consumers that they can obtain a copy of the information that the insurer holds about them, and contact details for doing so. This notice should be provided on a certificate of insurance and any renewal notices.

This will empower consumers to check and confirm their risk assessment, pricing and claims assessment is based upon reliable and verifiable information.

Consumer Data Right

In November 2017, the Australian Government announced the introduction of a consumer data right (CDR) in Australia. The CDR gives consumers the right to safely access data about them, held by businesses, and direct this information be transferred to trusted accredited third parties. The CDR improves consumers’ ability to compare and switch between products and services, and encourages competition between service providers, leading not only to better prices but also more innovative products and services.

This is consistent with the objective of many of the recommendations in this chapter, and chapter 17, which would make insurance products more comparable and make it easier for consumers to obtain quotes from a variety of suppliers.

The government determined that the CDR will first apply to the banking sector. The CDR will subsequently be rolled out sector-by-sector, with banking being followed by energy.

Future sectors of the economy that will become part of the CDR are determined by the government through sectoral assessments. In determining whether to designate a sector, the Treasurer consults with the ACCC and the Office of the Australian Information Commissioner and considers matters including:

- likely impacts upon consumers
- likely impacts upon relevant markets, including upon market efficiency, integrity and safety
- likely impacts upon privacy for individuals and confidentiality for businesses
- likely regulatory impact of consumer data rules
- likely impacts on intellectual property rights.

In particular, in considering whether to designate a sector, the Treasurer has regard to the promotion of competition and data driven innovation in the Australian economy. Part IVD of the Competition and Consumer Act sets out the processes and the criteria which the Treasurer must consider when making a designation.

The rollout of the CDR to general insurance has been considered by the Senate Select Committee on Financial Technology and Regulatory Technology as part of an inquiry that is currently underway. The Committee recommended in its interim report which was released on 2 September 2020 that the Australian Government should expand the Consumer Data Right to include other financial services, including sectors such as general insurance. The Committee’s final report is due in April 2021.

Although the CDR was formally announced after the release of our 2017 Issues Paper, several consumer groups, including the Financial Rights Legal Centre and Consumer Action Law Centre addressed the

---

664 See Recommendation 17.1—Standardise definitions of prescribed events; and Recommendation 17.2—Review and mandate standard cover.
665 See Recommendation 18.7—National home insurance comparison website.
topic in their submissions.\textsuperscript{667} The Consumer Action Law Centre proposed that consumers could use customer data in buying insurance, for example, to quickly and easily generate quotes and shop around. However, it was concerned about data privacy, in particular, third-party disclosure, and discrimination on the basis of data. The Financial Rights Legal Centre similarly supported the development of a consumer data right, provided a regulatory regime ensures consumers are adequately protected and able to realise the benefits from increased data sharing.

\textsuperscript{667} Consumer Action Law Centre submission to NAII issues paper, p. 5; Financial Rights Legal Centre submission to NAII issues paper, p. 18.
19. Intermediaries and other third parties

Key points

- Insurance brokers can serve an important role in assessing risk, sourcing quotations, and in claims management. However there is a significant conflict of interest between an insurance broker’s obligations to act on behalf of a consumer while being remunerated by an insurer. Disclosure of the conflict does not overcome the conflict.

- The use of intermediaries for home and/or contents insurance within northern Australia, and in particular northern Queensland, is more common than in the rest of Australia.

- Commissions paid to intermediaries in northern Australia can have a significant effect on the final premium that consumers are charged. Base commission rates of 15 to 20% are common, and total incentive payments can reach in excess of 30% of the cost of the premium. GST and stamp duty are then applied on the commission-inclusive amount.

- Across home, contents and strata insurance products in Australia, insurance brokers are paid, on average, an effective rate of commission approximately 8% higher than insurer intermediaries or referrers working on behalf of an insurer. We find this result at odds with what a consumer could reasonably expect from an insurance broker working on their behalf.

- The different types of remuneration arrangements between intermediaries and insurers (including overrider or volume-based commissions, profit-share arrangements, and other non-monetary benefits) are not well understood by many consumers.

- There appears to be no relationship between the size of the commission and the work undertaken by an intermediary. While commission payments can increase in line with rapidly rising base premiums the consumer does not receive any change to the level and quality of service being offered.

- Limited incentive exists for intermediaries to secure a lower premium for their client or recommend products on which they don’t receive a commission as this will also reduce their own remuneration.

- Strata managers have similar remuneration arrangements with insurers and insurance brokers that create a conflict of interest with their role providing services to a body corporate.

- Comparison websites and insurance brokers only consider a sub-set of the market.

The way in which an insurance product is purchased can have a significant impact on the final premium paid by a consumer, with commission payments and other incentives in some cases exceeding half the total cost of the insurance policy.

This chapter explains the role of intermediaries and other third parties and explores the incentives created by complex remuneration arrangements.

19.1 The businesses that operate between insurers and consumers

In northern Australia, as in Australia more generally, the majority of consumers purchasing home and/or contents insurance engage directly with an insurer or an intermediary acting on behalf of the insurer. While the use of comparison websites is very low, an increasing number of consumers use the services of an insurance broker.
Intermediaries facilitate the placement and purchase of insurance and sit between an insurer and a consumer. Intermediaries can be categorised as either:

- **insurer intermediaries**, that arrange contracts of insurance as an agent of an insurer—they may be a ‘distributor’ of an insurer-branded product, an ‘authorised representative’ applying their own brand to a ‘white label’ insurance product underwritten by an insurer, or acting under a ‘binder agreement’ where they have been authorised by an insurer to enter into contracts and/or settle claims on an insurer’s behalf, or

- **consumer intermediaries**, most commonly **insurance brokers**, that arrange contracts of insurance as an agent of a consumer, owners corporation or the representatives of an owners corporation.

The difference between the two relates to the manner in which they function in the marketplace and in whose interests they act.

Insurers may also maintain **referral networks** of businesses that, while not directly arranging contracts of insurance, will refer customer details and contact information to an insurer in exchange for some form of remuneration (usually a commission). A specific type of referrer are **comparison websites** such as Finder or Canstar.

In the case of strata insurance products, **strata managers** also play a central role arranging insurance on behalf of a body corporate, but will typically also have a relationship with insurers and/or insurance brokers.

We will consider these types of entities in more detail below.

**Insurer intermediaries**

Insurer intermediaries conduct business as an agent of, or on behalf of, insurers. Insurer intermediaries represent the insurer in the insurance process and operate under the terms of an agency agreement with the insurer.

The relationship can take a number of different forms. In some markets, insurer intermediaries are independent and work with more than one insurer (usually a small number of companies); in others, they are exclusive; either representing a single insurer in one geographic area or type of product.

Insurer intermediaries may also distribute ‘white-label’ insurance products under their own brand, such as Coles or Woolworths Insurance. Both supermarket chains do not directly manage the insurance products they sell, but rather act through an authorised representative agreement in exchange for commissions or other remuneration. This particular arrangement contributes to the issue of brand diffusion, and the ‘illusion of competition’ it can create, which is more fully considered in chapter 7.

**Insurance brokers**

An insurance broker owes their primary duty of care to the insured, as principal. Insurance brokers, as Australian Financial Services License (AFSL) holders, are required to do all things necessary to ensure that their services are provided efficiently, honestly and fairly. The broker’s duty to their clients includes determining their individual requirements, sourcing and providing advice on an appropriate product, and otherwise using reasonable care and skill to facilitate the insurance process.

The National Insurance Brokers Association of Australia (NIBA), the peak industry body that represents insurance brokers in Australia, states that the role of the broker is:

---


669 A broker’s duty is determined principally by the law of contract and negligence: Johnson v Minet Mathers Ltd (1989) 6 ANZ Ins Cas 60-968. See also Corporations Act 2001 (Cth) sections 961B, 961J. One exception is where an insurance broker acts on behalf of an insurer under a ‘binder agreement’ (where an insurer gives authorisation to an intermediary to enter into contracts and/or settle claims on their behalf) or other ceded authority, where the consumer must be clearly advised of this up front: Holmark Construction Co Pty Ltd v Willis Faber Johnson & Higgins (NSW) Pty Ltd (1988) 5 ANZ Ins Cas 6-877 (NSWSC).

670 See Corporations Act 2001 (Cth), section 912A.
... to discuss with the client the nature of their risks, give some advice where appropriate on the management and mitigation of those risks, work with the client to identify appropriate insurance coverage for those risks and ultimately negotiate coverage to the market. [If] a claim has to be pursued, the broker then assists the client with the pursuit of that claim to the insurer and the resolution of the claim.

Insurance brokers are usually contracted with multiple insurance companies in order to effectively obtain quotations and place coverage for their clients. These contracts will set out the broker’s remuneration arrangements. As well as remuneration from an insurer, a broker fee may also be paid directly from the client (the consumer).

A single insurance broker may have contracts with dozens of insurers in order to facilitate quotation requests across multiple lines of business, however, for a residential policy such as domestic home or strata, a broker would usually approach a much smaller number of insurers for alternative quotations.

We received submissions and feedback during our public forums that acknowledge the role that an insurance broker can play in sourcing policies that are tailored to the purchaser and providing risk management advice, however some raised concerns over broker’s remuneration arrangements and service levels.

**Box 19.1: Extracts from submissions from local residents and property owners**

“[I] have used a broker and have found sometimes still achieved a better rate for certain policies without use of a broker, however, do feel a lot more confident that I am getting correct coverage by use of a broker.”

“I bought an investment property last year and an insurance broker was recommended to me and they are excellent. I suppose some people would just go with whatever their broker recommends but I do like to look at all the various policy options they present me so ultimately it’s my decision. Having a broker is great from the perspective of not having to worry about renewal dates (and I’m sure claims as well though I’ve never had to make one).”

“We use a broker and they are great. Of course they charge a fee but in the past have found it is much the same price as going through the company direct.”

“[I] was using a broker and found it didn’t get me a better price in the end so I searched myself. Brokers only use companies they get a kickback from.”

“I made enquiries with a broker last year. They only gave me a choice of one policy ... I would prefer more to choose from and more detail from a broker. I don’t know if they only review/recommend products that they receive commissions for etc.”

---

671 Mr Dallas Booth, Chief Executive Officer, NIBA, Committee Hansard, Sydney, 14 October 2011, p. 5.
674 Anonymous 56 submission to the NAII issues paper.
675 Anonymous 116 submission to the NAII issues paper.
676 Anonymous 40 submission to the NAII issues paper.
677 N. Shaw submission to the NAII issues paper.
678 F. O’Connor submission to the NAII issues paper.
Referral networks

In order to generate leads, many insurers enter into ‘introducer’ or referral agreements with third-parties. These agreements are typically between an insurer and another financial service provider such as a bank or credit union where, during a transaction, the third-party can pass on consumer details to an insurer who will follow up with the consumer at a later time.

The third-party is unable to rely on the insurer’s AFSL and therefore cannot offer advice or discuss the suitability of a product. The third party only acts as a conduit between the consumer and insurer for factual information. Despite not being able to consider an insurance product’s suitability for a consumer, referrers can stand to receive significant remuneration from insurers when referred customers purchase an insurance product.

Comparison websites

As discussed in chapter 18, comparison websites, sometimes called comparator websites or aggregators, are generally online platforms that act as a third-party between insurers and consumers searching for a range of insurance products. Consumers are generally required to provide certain personal and property details online before being presented with information on a number of insurance products to compare.

As with referral networks more generally, comparison websites can contract with insurers to receive a payment (usually a commission or flat dollar amount per sale) when a customer referred from their website purchases an insurance product.

In 2018, of the eight insurers who hold the largest market shares in northern Australia, only two had arrangements with commercial comparison websites. In these cases the websites received either a base commission percentage of the total cost of the policy or a set fee per policy. Analysis of data from insurers shows that while a very small number of home, contents and strata insurance products in northern Australia were sold through comparison websites, in nine out of every ten cases reported to us the payment from an insurer to the comparison website was approximately 25% of the product’s final cost.

Such costs are incorporated into the premium paid by consumers, but may not be clearly disclosed to them. Further, the range of products considered by comparison websites in northern Australia appears to be very narrow. We consider that it is reasonable that a consumer should be made aware of the commercial arrangements that exist between insurers and comparison websites, and which insurance products will (or will not) be compared.

Insurers may add or remove brands from commercial comparison websites year to year. In late 2020, consumers were unable to compare and obtain quotes for combined home and contents products from any of the retail brands of the major insurers active in northern Australia on comparthemarket.com.au or on iselect.com.au. Comparethemarket.com.au is owned by BHL Holdings Limited, which also owns insurer Auto & General. BHL Management Services Limited, a company related to BHL Holdings Limited, also has a substantial shareholding (19.6%) of iselect.com.au. These websites feature several of Auto & General’s brands, however these brands have only a minimal, or no presence in some parts of northern Australia.

Consumers were able to compare and obtain quotes for combined home and contents products from the Youi, Westpac, St. George and ANZ brands on finder.com.au and canstar.com.au, representing only 4 of the 29 retail brands of the major insurers active in northern Australia for combined home and contents products.

Strata managers

At the time of buying into a strata or community title scheme, a unit owner becomes a member of a legal entity referred to as a body corporate (also referred to as an owners’ corporation). Depending on the body corporate’s size or complexity, its function, duties, and powers, the body corporate or its committee may decide to delegate or authorise a strata manager to obtain or assist the body corporate in obtaining insurance. State and territory strata legislation provide for how this may occur and specific
requirements may be set out in the terms of a strata management agreement between the body corporate and the strata manager or strata management company. 679

In this sense, a strata manager is an intermediary acting on behalf of the body corporate. However, in reality, strata managers’ arrangements and obligations are more complex.

When purchasing insurance, general market practice is for a strata manager to arrange cover either through an insurance broker or directly from a specialist underwriting agency. Given the complexity and regulatory requirements in arranging this type of insurance strata managers will often engage an insurance broker. Strata Community Australia (QLD), the state branch of the peak industry body representing strata managers, conducted a survey of its members to inform its submission. It found that approximately 75% of members indicated they will always use an insurance broker, with the remaining 25% indicating that they would ‘sometimes’ use a broker. 680

When arranging insurance a strata manager will do so in their capacity as either an authorised representative or a distributor for an Australian Financial Services (AFS) Licensee. This may be an insurer, an insurer intermediary who provides specialist strata products, or an insurance broker. This allows the strata manager, who is otherwise not entitled under law to deal in financial services, to source an insurance product and provide this to the committee as part of their management services.

In any case, authorised representative or distributor arrangements allow for commissions and other remuneration to be paid to the strata manager by either an insurer or an insurance broker. Where a strata manager engages an insurance broker, a common arrangement is for the strata manager to receive most, if not all, of the commission the insurance broker receives from the insurer. To offset this loss of commission income, the insurance broker may charge a higher fee for their service which is levied on top of the commission-inclusive premium, with the total cost borne by the body corporate.

On the matter of disclosure, under the Corporations Act 2001 (Cth) (Corporations Act), strata managers appointed as representatives of a holder of an AFSL are required to provide a body corporate with a Financial Services Guide (FSG). In accordance with the Corporations Act, an FSG must include information about the remuneration (including commission) or other benefits that the strata manager is set to receive in respect of the provision of their services. 681

Information about product pricing must also be disclosed to the body corporate in a Product Disclosure Statement (PDS) for the relevant strata insurance product. Moreover, as representatives of an AFS Licensee, in the provision of financial services strata managers are obligated under the Corporations Act to ‘have in place adequate arrangements for the management of conflicts of interest that may arise’. 682

In addition, a strata manager’s activities are also bound by State and Territory legislation.

679 See, for example, sections 97 and 120 to 122 of the Body Corporate and Community Manager Act 1997 (Qld) and Part 5, Division 2 of the Body Corporate and Community Management (Standard Module) Regulation 2008 (Qld), Part 9 of the Strata Titles Act 1985 (WA) and section 30 of the Unit Title Schemes Act 2009 (NT).

680 Strata Community Australia (QLD) submission to the NAII issues paper, p. 2.

681 ASIC Regulatory Guide RG 175.108 (f).

682 See Section 912A(1)(aa) of the Corporations Act 2001 (Cth) (the conflicts management obligation).
Box 19.2: Governing regulation for strata managers in northern Australia

In Western Australia, the relevant legislative instruments are the *Strata Titles Act 1985* (WA) (STA) and the *Strata Titles (General) Regulations 2019* (WA). The STA is silent as to whether strata managers can receive commission or other consideration in the provision of their services. However, the STA requires a strata manager to disclose details of remuneration or other benefits (of $100 or more) which the strata manager received or expects to receive in connection with the performance of its functions as soon as is practicable after becoming aware of the relevant facts.

In the Northern Territory there are two Acts which govern body corporates depending on when the strata development was registered. Strata developments registered from 1 July 2009 are subject to the *Unit Title Schemes Act 2009* (NT) and the *Unit Title Scheme (Management Modules) Regulations 2009* (NT). Strata developments registered prior to 1 July 2009 are subject to the *Unit Title Act 1975* (NT) and Unit Title (Management Modules) Regulations 2009 (NT). Both Acts are silent on whether strata managers can receive commission or other consideration in the provision of their services and on any disclosure obligations.

In Queensland, the *Body Corporate and Community Manager Act 1997* (Qld) and subordinate regulations govern the administration of strata title schemes. From 1 March 2021, there will be a specific disclosure requirement, before a body corporate enters into a contract, relating to any commission, payment or other benefit which the strata manager or other relevant persons will receive when goods or services are acquired by the body corporate. One of the examples given in the legislation is ‘a commission received … from an insurance company’. The notice of an annual general meeting sent to lot owners will also be required to disclose any financial or other benefit (e.g. commissions or discounts) given by insurers, insurance brokers and insurer intermediaries.

In some jurisdictions, strata managers are also subject to codes of conduct enshrined in the applicable strata legislation. In Queensland for example, strata managers are bound by the ‘Code of conduct for body corporate managers and caretaking service contractors’ contained in the *Body Corporate and Community Management Act 1997* (Qld). This code requires that in performing their functions, strata managers ‘act honestly, fairly and professionally’ and ‘in the best interests of the body corporate unless it is unlawful to do so’.

We considered the remuneration structures of strata managers, and note that under a typical strata management agreement between a body corporate and strata manager, the range of a manager’s duties and the corresponding fees are clearly laid out. Typically, a strata manager will, with the exception of arranging insurance, be remunerated through fees alone (rather than commissions).

Some strata management contracts expressly preclude the body corporate from arranging its own insurance. Although other contracts may provide for the body corporate to elect to arrange its own insurance without the strata manager acting as an intermediary or accepting a commission. In many cases the body corporate will be required to pay an additional fee equivalent to the commission the strata manager might otherwise have received. This may significantly undermine the incentive for body corporate members to arrange their own insurance.

### 19.2 Commissions and conflicts

There are numerous monetary and non-monetary ways that an insurer can incentivise an intermediary to sell their products. These are shown in box 19.3.

---

683 Body Corporate and Community Management (Standard Module) Regulation 2020 (Qld) ss.2, 156 and 196(2)(h).
684 *Body Corporate and Community Management Act 1997* (Qld)—section 118 and Schedule 2 Item 3.
Box 19.3: Types of incentives paid to intermediaries

The most prevalent type of commission payment is a base commission paid at an agreed percentage of the cost of the policy, less government fees and charges. The rate of commission ranges from 0 to 30% for insurance brokers, while for insurer intermediaries and referrers the rate of commission generally ranges from 0 to 15%.

An 'overrider' commission or volume payment is an incentive paid to an intermediary, referrer, or comparison website as a reward for placing a large amount of premium with an insurer. The rate of commission ranges from 1 to 3% of the total gross written premium and is in addition to any other commission arrangements. These payments may also be in the form of a contingent lump sum amount.

Profit-share agreements refer to payments made to an intermediary, referrer, or comparison website by an insurer after certain profit targets have been met. Profit is generally calculated on the gross written premium placed through the intermediary, referrer, or comparison website with the insurer less the insurer's operating expenses, incurred claims expenses, and other commissions paid. An insurer may also pay a management fee for the supply of services such as claims handling and basic administration by the intermediary, though it may more likely be used as an incentive during contract negotiations. Management fees will generally be a percentage of the total gross written premium or a defined dollar amount. These can be very significant.

Non-monetary incentives are incentives provided to an intermediary, referrer, or comparison website by an insurer and may include such things as sponsorship arrangements, access to training and development or specialised IT systems, and insurer hosted social events.

The amount of remuneration is determined by the terms of the contract that an intermediary, referrer, or comparison website enters into with an insurer. Commissions and other incentives can have a significant effect on the final premium that consumers are charged. It is apparent from information obtained by the ACCC that these complex remuneration arrangements are not well understood or even known to exist by many consumers.

The scale of payments to intermediaries and referrers

The amount of commissions and other payments made to intermediaries and referrers is significant. In the 2017–18 financial year alone, the total of commissions and other incentives paid for home and/or contents and strata products was over $650 million nationally, $62 million (approximately 9.5%) of this in northern Australia.

From information obtained by this inquiry, we have determined the rates of effective commission (including base commissions and other payments) for both home and/or contents and strata products across Australia. These are shown below in figure 19.1.
For the year 2017–18, the average effective commission rate for home and/or contents policies in northern Australia was approximately 18%, compared to approximately 21% for the rest of Australia.

We find that the average rate of commissions and other payments for insurance brokers in particular to be notable, with approximately 24% of the total premium paid by consumers using a broker in northern Australia attributable to an incentive of some description. In some instances this figure can exceed 30% of the total cost of the product.

We also considered the purchase of strata products and note that insurance brokers are again accepting a much larger effective commission rate than strata managers, as shown in figure 19.2. This is true for both northern Australia and the rest of the country, however it is more prominent in northern Australia where an insurance broker is on average receiving an effective commission rate nearly 10% higher than that received by a strata manager purchasing directly from an insurer.

An important caveat is that the data provided does not capture payments to strata managers by insurance brokers as part as their own arrangements. It may be that while insurance brokers are accepting a much higher percentage of commission than strata managers, as part of their agreement with the strata manager, the broker may cede most if not all of the commission received. In any case, the amount is ultimately paid by the strata unit owners.
Figure 19.2: Average effective commission rate by distribution channel for strata products, 2017–18

<table>
<thead>
<tr>
<th>Distribution Channel</th>
<th>Strata Manager</th>
<th>Insurance Broker</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Western Australia</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>North Queensland</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Northern Australia</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Rest of Australia</td>
<td>25%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: ACCC analysis of data supplied by insurers. Data shown excludes one insurer as distribution breakdown was not able to be provided.

Note: In North Western Australia the number of strata policies sold directly to a strata manager is very small (less than 15) and no commission has been paid on these policies through this distribution channel.

Across home, contents and strata insurance products in Australia, insurance brokers are paid, on average, an effective rate of commission approximately 8% higher than insurer intermediaries or referrers working on behalf of an insurer. We find this result at odds with what a consumer could reasonably expect from an insurance broker working on their behalf. Considering the pricing pressures discussed in chapter 3 of this report, this high effective rate of commission represents a significant cost for consumers.

We acknowledge the important role that insurance brokers play in the insurance process, and in their ability in negotiation and sourcing difficult to place or in some cases, more competitive insurance options for consumers. We also note that commissions such as those received by intermediaries are not currently restricted. However, the high rates of commissions charged throughout northern Australia indicate that consumers may not be well served by prevailing remuneration arrangements that are largely contingent on the size of insurance premiums.

What has been said in the past and has anything changed?

The issues of commissions and the potential conflicts to which they may give rise have been considered in previous reviews and inquiries.

In 2012, the House of Representatives Standing Committee on Social Policy and Legal Affairs described commission payments as having an extremely detrimental effect on the cost of a policy, especially when premiums are increasing:

As policy premium costs have increased, so have the commission costs (such as Body Corporate manager or insurance broker fees) that are added to premiums and then passed on to individual unit owners. While commission costs are not drivers of premium increases, their commensurate dollar value rises as premium costs rise, and so they therefore contribute to overall price increases.685

---

The House Committee made a number of recommendations including to:

- improve the information and educational resources available to bodies corporate so they are more aware of contractual obligations of disclosure around fees and commissions
- consider regulation to increase transparency in the disclosure of commissions and fees taken by intermediaries.

In 2015, the Northern Australia Insurance Premium Taskforce report approached the issue of the affordability of insurance within northern Australia and determined, again, that commission payments were a potential source of conflict, and acted as a disincentive to strata managers to obtain insurance that represents the best value for money.\(^{686}\)

The Taskforce considered disclosure regimes around Australia and recommended that, ‘state governments could consider reforms that highlight alternatives to commissions, such as fee-based systems, as a means of payment for strata management services’.\(^{687}\)

The Australian Government responded to this report in 2017, referring matters of strata commissions regulation and strata title legislation changes to state governments.

In 2017, the Senate Economics References Committee also highlighted as a key concern commission payments to strata managers and raised concerns about the transparency of disclosure of commissions to strata scheme members, and whether such arrangements represent a conflict of interest.

Ultimately, the Senate Committee formed the view that ‘the current disclosure requirements relating to the payment of insurance commissions to strata managers are insufficient and do not provide adequate transparency to body corporate members’.\(^{688}\) They made two recommendations:

- that the government strongly consider introducing legislation to require all insurance intermediaries to disclose component pricing, including commissions payable to strata managers, on strata insurance quotations
- that state and territory governments strengthen disclosure requirements in relation to the payment of commissions to strata managers.

The Australian Government noted these recommendations and referred them to the state and/or territory governments who retain overall responsibility for regulation of strata managers.

In the September 2018 interim report of the Financial Services Royal Commission, Commissioner Kenneth Hayne considered at length the role that misaligned incentives can have in the provision of financial advice. On the issue of conflicted remuneration, the Commissioner expressed the view that:

‘sales staff can be rewarded by commission; advisers should not be.’\(^{689}\)

In the final report of the Royal Commission, in February 2019, Commissioner Hayne stated:

Any attempt to reduce or eliminate conflicts of interest in the financial advice industry must begin, therefore, with examination of those exceptions, and whether they continue to be justified. That examination must take place against the point of principle made by ASIC [Australian Securities and Investments Commission] in its submissions. This is that any exception to the ban on conflicted remuneration, by definition, has the ability to create misaligned incentives, which can lead to inappropriate advice. As I [Commissioner Hayne] said in the Interim Report, that is not a point that depends on evidence. It is the unchallenged (and unchallengeable) basic premise for the conflicted remuneration provisions.’\(^{690}\)

---

\(^{687}\) ibid, p. 78.
\(^{688}\) Senate Economics References Committee, *Australia’s general insurance industry: sapping consumers of the will to compare*, August 2017, p. 70.
The final report included a recommendation that a 2022 review by the Government in consultation with ASIC consider, among other things, whether the exemption from the ban on conflicted remuneration for general insurance products remains justified (if the exemption was still in place).

**The effect of intermediary remuneration arrangements**

We note the distinction between an insurance broker and an insurer intermediary is very significant when considering the effect of remuneration arrangements. An insurer intermediary, by definition, should act on behalf of the insurer. In many respects they are akin to sales staff of an insurer. In most cases, an insurer intermediary will act on behalf of a single insurer.

In contrast, an insurance broker, by definition, should act on behalf of a consumer although they may have remuneration arrangements in place with a number of insurers. There is clearly a much greater potential for an insurance broker’s remuneration arrangements with insurers to lead to a conflict of interest with their obligation to act on behalf of a consumer.

When insurance is sold through an intermediary there are certain disclosure requirements that must be followed. The intermediary must provide the consumer with a FSG which discloses information about the financial services offered, remuneration arrangements, and any potential conflicts of interest.

Despite this risk, current disclosure requirements only offer a limited degree of transparency regarding the actual remuneration paid. For instance, a common disclosure clause within an FSG may state that an intermediary, upon placing the insurance, will receive a commission that varies between 0 and 25 or 30% of the base premium paid. Information obtained in this inquiry indicates that the majority of base commission payments are made at the higher end of the possible range indicated here. When all other remuneration payments are considered actual commission rates may exceed 30% of the final cost of the product.

A recurring theme of stakeholder submissions to this inquiry is that there is confusion regarding how intermediaries (including insurance brokers and strata managers) are remunerated by insurers and who ultimately bears the cost of these payments. This confusion suggests that current disclosure regimes may not be adequate when an intermediary has a clear conflict of interest.

Residents in northern Australia expressed their concern that large commissions add to the financial strain of already high insurance premiums. In cases where a premium has risen 100 to 300%, so too has the underlying base commission amount built into the premium.

In addition, these types of base commission payments attract GST, on top of which state or territory government stamp duties are levied, which further increase the final cost for the consumer. An example of this is shown below in box 19.4.

**Box 19.4: Example of application of base commission and its effects on policy pricing**

A home and contents policy in regional Queensland is sourced through an insurance broker who has an arrangement with an insurer to receive 20% commission for this type of policy. The insurer calculates that, based on the property details, the location, and other relevant data that the initial base premium is $1,750. To this the insurer adds $350 in commission (being 20% of the calculated premium) bringing the total base premium to $2,100.

The insurer must then also apply the applicable GST and state government stamp duty (in this case, 9% duty applied in Queensland) bringing the total premium that the customer pays to $2,518. Without the commission, the premium (including taxes) would be $2,098.

For strata complexes where the premiums may be in the tens or hundreds of thousands of dollars the corresponding commission payment can be significant.

691 ibid, p. 27.
On **base commissions**, consumers questioned whether it was fair or reasonable to link an intermediary’s remuneration to the premium alone and argued that there is no relationship between the size of a commission and quality or amount of work undertaken by an intermediary.\(^{692}\)

On the other hand, industry submissions to this inquiry suggest that commissions are a reasonable payment for services such as claims administration and risk management that may be provided by the intermediary.\(^{693}\) They argue that the removal of commissions would not increase or otherwise affect competition in northern Australia.\(^{694}\)

Information obtained from one insurer suggests that the rate of commission is correlated with the premium that is charged to the consumer and to the likelihood of a product being recommended by a broker.

That insurer made a decision to reduce the base commission rates paid to insurance brokers on residential products to 15%. It found that the change in commission, with no other changes made to the policy wording to effect its suitability, led to a significant reduction in the number of policies sold through insurance brokers and profit.

We consider it may be that, faced with a lower commission payment, brokers elected to stop recommending the insurer’s product in part or in full, or to only place risks with them in high hazard areas where there were few other competitive options. In order to mitigate any further loss of viability to their product offering, the insurer discussed and re-introduced the ability for brokers to scale the base commission up to 22.5%.

Insurers are also very mindful of the effect of premium changes on intermediaries’ income, including where an insurer limited the amount of a premium reduction for its customers (known as ‘cupping’ or ‘collaring’) to avoid damaging the insurer’s relationship with brokers.\(^{695}\)

In arguing for cups limiting premium decreases to around 3 to 10%, instead of 20 to 25%, a senior manager at one insurer said in an internal communication:

> Having large premium decreases on renewals reduces our credibility. This is worse in the intermediary market where the intermediary sees this multiple times in contrast to direct customers who only see their own individual policies. Intermediaries want to see their commission income at least maintained, not reduced. This is a problem for them that has been raised in the past quite vehemently... Regions indicated that if the negative collars are excessive, intermediaries will demand that they individually reduce the collars to zero for their account no. or ask for commission rate increases. The regions said that they want to avoid both of these scenarios.

> Premium stability is highly important because the broker can move the entire portfolio if rates change too fast too quickly. And where rates are not generally required to increase by large amounts, it affords us the opportunity to move to technical rates more gradually, particularly if retention is moving towards its maximum levels. Balancing this, we need to get both our new business and renewal books as close to correct technical rates as quickly as possible to ensure that we get the right selection of risks and maintain profitability.

The manner in which insurers compete for the business of intermediaries is considered in more detail in chapter 7.

Submissions by property owners and body corporate committees provide examples of significant premium reductions being achieved by removing commissions from the premium. Consumers spoke of no longer using an intermediary (such as a strata manager or insurance broker) that charges a commission or, where possible, moving to a more transparent fee-for-service model.\(^{696}\)
We consider that, where an insurance broker preferences one insurer over another based on the amount of commission received, the insurance broker’s conflict of interest is clear and that such a conflict would run counter to the interests of consumers.

Other types of commission that consumers may not be fully aware of are overrider or volume-based commissions. These are usually made to the intermediary once or twice a year and are directly contingent on the sales of a particular product or within a geographic region.

Volume-based payments have come under scrutiny for the conflicts they create in sales based industries and the potential for misconduct that these types of incentives promote. In a 2017 review, ASIC commented that these types of payments created a conflict of interest for aggregators or brokers and that consumers were at ‘higher risk’ of being recommended a product for the wrong reasons.

In addition to the supply of base commissions and volume-based payments, insurers will also enter into profit-share agreements with intermediaries as a further way to incentivise the sale of their products. The calculations for these payments hinge on the entire ‘book’ of business that an intermediary places with an insurer performing well with respect to gross written premium earned by the insurer less any claims that have been paid in the period. The insurer may also factor in policy retention rates (the percentage of policies not moved away from the insurer), and new business targets, but the key factor in determining the amount of profit is heavily weighted towards minimising claims payments.

It appears from information obtained by this inquiry that the size of these payments can vary considerably, especially in adverse years where high claims payments erode profits. However, some intermediaries can be entitled to 50 to 75% of the insurer’s profit on the policies they place with them. A potential for conflict arises from these arrangements if the insurance broker will be rewarded by the minimised or reduced success of their customers’ claims.

Insurers may also pay intermediaries a management fee as a part of their agreements. A management fee for the provision of claims or other administration service by an intermediary may be acceptable in some circumstances but may be a further method to incentivise an intermediary placing business with a particular insurer. This is especially so where the management fee is determined by a flat payment plus a percentage of the total gross written premium placed with the insurer.

An intermediary may also be paid a commission for other related services. An example is premium funding, which is where an insurance broker arranges a short-term loan (often for the length of the policy) to allow the purchaser of the product to pay the cost of the premium over time. For example, faced with a higher than expected insurance premium, a body corporate may need to rely on a premium funder until additional funds can be obtained from unit owners. These are in effect loans with interest, and for placement of these loans the intermediary is paid a commission of 1 to 2% of the total loan amount.

Conflicted remuneration of insurance brokers

As has been seen in other financial services reforms, under a commission-based system there is an unavoidable conflict of interest for intermediaries that are simultaneously acting as an agent for a consumer but being remunerated by an insurer. It is not clear that this conflict can be adequately managed through disclosure requirements alone.

The general insurance industry has remained exempt from recent major financial reforms that have sought to tackle issues of potential misconduct by financial advisors. Of particular relevance are the 2013 reforms as part of the Future of Financial Advice (FOFA) legislation which was introduced following the failure of major financial advisors and in response to a Parliamentary Joint Committee inquiry.

---


The objectives of FOFA were to improve trust and confidence in the financial sector, and to protect consumers from misconduct or poor advice. It introduced three major objectives:

- the introduction of ‘the best interest duty’ to ensure advisors keep the objectives and needs of consumers above their own
- a ban on ‘conflicted remuneration’, or any payment that could influence an advisor in recommending a product
- clearer disclosure of fees and other payments by consumers.

Conflicted remuneration means any type of remuneration (including commissions) given to a financial services licensee, or their representative, who provides financial product advice that, because of the nature or circumstances of the remuneration arrangements:

a. could reasonably be expected to influence the choice of financial product that is recommended, or
b. could reasonably be expected to influence the financial product advice given.\(^{699}\)

The activities of advisors in relation to general insurance was specifically excluded from these reforms.\(^{700}\) This appears inconsistent with the information obtained and the submissions received in the course of this inquiry, where disclosure may not be adequate in complex remuneration structures that can be seen to influence an intermediary’s advice.

In November 2018, in its response to the interim report of the Financial Services Royal Commission, ASIC identified that conflicted remuneration had led to consumer harms which are entrenched across a wide range of financial services, including general insurance. ASIC considered that disclosure alone was not an effective means of overcoming consumer’s misconception about the capacity in which an intermediary is acting and they recommend that conflicted remuneration in financial services should be prohibited or removed as a general policy.\(^ {701}\)

We also consider that the exemption from the prohibition of conflicted remuneration should be removed for insurance brokers. Where commissions and other benefits provided to insurance brokers could reasonably be expected to influence which insurance products they recommend or what advice they give, there is a conflict with their obligation to act in the best interests of their clients. We consider that disclosure is not sufficient to deal with the conflict of interest.

We consider that providing a clear, fee-for-service model to consumers is preferred to the remuneration arrangements described above, as they avoid inherent conflicts of interest that exist.

**Recommendation 19.1**

Extend the ban on conflicted remuneration to insurance brokers

The Corporations Regulations should be amended to remove the exemption for general insurance retail products from the conflicted remuneration provisions as they apply to insurance brokers.

Commissions and other benefits given to insurance brokers can give rise to an unacceptable conflict of interest. As is already the case for other financial products, insurance brokers should be prohibited from receiving commissions and other benefits where these create a conflict with a broker’s obligation to act in the best interest of their clients. Disclosure alone is insufficient to address these conflicts.

As noted earlier, the Financial Service Royal Commission final report included a recommendation for a review of the general insurance exemption from the conflicted remuneration ban in 2022, if it is still in

---

700 A benefit is not conflicted remuneration if the benefit is given in relation to a general insurance product. See: Corporations Regulations 2001, Reg 7.7A.12G.
In response, the Government agreed to this recommendation. The ACCC looks forward to participating in this review.

**Strata manager remuneration**

As discussed in section 19.1, a strata manager may either enter into an authorised representative or distributor agreement with an insurer, a broker, or both. The differences between these agreements is primarily in the types of advice that the strata manager can give, with only general advice allowed under the authorised representative model and no advice at all under the distributor model. Either agreement allows a strata manager, who does not otherwise hold an AFSL, to deal in financial products and receive commission payments in relation to this dealing.

Numerous submissions to our inquiry from members of the public, bodies corporate, and consumer groups raise concern at the high rate of commissions paid to strata managers, either directly or through an insurance broker, for their role in arranging insurance on behalf of a body corporate.

Legal Aid Queensland provided a summary of complaints received by its consumer protection unit lawyers with regards to the services provided by strata managers:

- Strata managers are engaging brokers who agree to share commission received from the insurer with the strata manager. The percentage of commission shared is a relevant factor in which broker is selected.
- Strata managers are not using, or making no effort to find, the most appropriate broker or broking arrangement for the strata properties they manage and are instead focused on maximising their revenue. It is alleged there are many instances where the strata manager and broker are not operating at arm’s length and that it is common for the broker to be an associate or subsidiary of the strata manager and/or its owners.
- Strata managers are influencing the broker’s policy selection by having a bias towards those policies that generate a greater commission for the strata manager and incidentally the broker. Strata committees are consequently purchasing policies that may not be the most desirable policy for their strata property, whether by its terms and/or the policy’s price.
- Strata managers are obstructing committees from contacting the broker selected by the strata manager, and brokers more generally, to request further details to assist them evaluate policies offered.
- Strata managers are becoming involved in committee elections to ensure committees that are elected are favourable to them so they do not lose the fees earned through their management and related broking services.

Consumers also expressed frustration and disenchantment with unclear or conflicted arrangements between strata managers and insurers and the perceived lack of independence of strata managers. Examples of stakeholder views on strata managers are presented in box 19.5.

---

704 Legal Aid Queensland submission to the NAII issues paper, p. 5.
While these examples may be attributed to a small number of strata managers working within the sector, much like insurance brokers, there is an inherent conflict between the interests of their clients and their own financial interests when a significant portion of their revenue is derived through commission payments from insurers or insurance brokers.

Disclosure of commission amounts is not sufficient to deal with this conflict of interest, and there is a risk that strata managers will have little incentive to pursue lower premiums for their clients, as this will reduce their own remuneration. We acknowledge that the complexities and varied duties of managing a strata complex require remuneration under a management agreement. However, the remuneration arrangements of a strata manager should not incentivise higher premiums for their clients.

Instead, we consider strata managers should only be remunerated by their body corporate in relation to arranging strata insurance, under arrangements agreed between the strata manager and their body corporate client.

If a strata manager can only be remunerated by their body corporate, insurers will better compete for this business by offering lower premiums and/or better coverage, as strata managers’ choice of strata insurance products will no longer be influenced by the commissions and other payments they receive from insurers directly, or through insurance brokers.

Further, if implemented, the recommendation does not mean that strata managers will not be paid for their work in obtaining insurance coverage or managing claims. Instead, they will be paid under remuneration arrangements negotiated with their body corporate client. This will be more transparent and avoid conflicts of interest. While it would be open for a strata manager to seek a fee set with reference to the strata premium paid (that is, just like a commission), we consider it far more likely that strata managers and their clients would agree to arrangements that more closely aligned their interests.

Body corporates may incur additional strata manager fees in relation to arranging insurance if strata managers can no longer be remunerated by insurers or insurance brokers. However, their incentives will be more closely aligned, which will in turn drive greater competition in markets for strata insurance.

While brokers may still receive commissions from insurers (while conflicted remuneration of insurance brokers is allowed), they will face competitive pressure from strata managers who will be more willing to use alternative brokers or deal with insurers directly. As such, insurance brokers may need to offer lower premiums by foregoing some of their commission in order to attract strata managers’ business.
**Recommendation 19.2**

Strata managers to be remunerated by body corporate only

State and territory legislation governing strata managers should be amended to prohibit strata managers from accepting payments in relation to arranging strata insurance other than those agreed to, and made by, their body corporate.

Strata managers should be required to negotiate any fees or payments for arranging insurance directly with the body corporate they are servicing. This would encourage remuneration arrangements that better align the interests of the strata manager and their clients.

The range of options considered by comparison websites and brokers

In our 2015 consumer and industry guidance on the operation and use of comparator websites we identified a number of concerns with some comparison websites over a lack of transparency in regards to the:

- extent of the comparison service, including market coverage
- savings achieved by using the comparison service
- comparison services being unbiased, impartial or independent
- value rankings
- undisclosed commercial relationships affecting recommendations to consumers
- content and quality assurance of product information.\(^708\)

ASIC raised similar issues during a review on insurance specific comparison websites and found that on some websites:

- there was insufficient disclosure relating to website operators who were related to the issuer of the insurance brands being compared
- comparisons were provided on the basis of price without any warning that different products may have different features and levels of coverage
- the operators of websites are not appropriately licensed or authorised to provide financial services.\(^709\)

In our June 2018 Retail Electricity Pricing Inquiry Report, we expressed concern that many consumers are likely to assume that websites display all of the product offers and retailers available or present in the market. We believe this is also likely to be the case in relation to insurance products. In the June 2018 report, we concluded that:

> third party intermediaries do not always make recommendations that are in the best interests of consumers [and] third party intermediaries do not always adequately disclose the number of retailers and offers that they consider in making a recommendation to a consumer.\(^710\)

As noted above, the current remuneration arrangements will incentivise insurance brokers to recommend some products over others. Further, it will also influence which insurers and products they consider in the first place. So, while it is not practical in many instances, insurance brokers (as with comparison websites) will not generally have arrangements in place with all active insurers in the markets that they operate.

Removing the potential for conflicted remuneration of an insurance broker (as recommended above) may increase the number of insurers a broker considers but they would generally still only consider a sub-set of the market. It is, therefore, important that consumers are aware of the limitations of the

---


search being conducted by a comparison website or insurance broker, and the scale of any payments they stand to receive.

Requiring comparison websites and insurance brokers to disclose a complete list of what home, contents or strata insurance products they will consider will improve transparency for consumers and increase their ability to make an informed assessment in considering whether to use such services. It will also act as an incentive for brokers and comparison websites to consider a wide range of products, and thereby improve the recommendations they make to consumers.

We do not consider that this recommendation should limit the way that brokers operate, or restrict the offers that they can consider. The recommendation does not prevent insurance brokers from considering products that are not listed when trying to place a risk. The recommendation would only require them to disclose the new product when they subsequently provide the list of products considered, if that new product is to be considered in the future.

We also note that the requirement for insurance brokers to disclose products that they will consider does not require them to provide quotes for every product listed. However, they have to at least consider whether the product would meet their client’s needs.

Recommendation 19.3
Clear disclosure of products considered and remuneration

Comparison websites and insurance brokers should be required to disclose a complete list of what home, contents, or strata insurance products they will consider in making a comparison or providing a recommendation to a consumer. This disclosure should be prominently displayed on the comparison website or insurance broker’s website, and be provided to consumers before they engage the services of the comparison website or broker.

If recommendation 7.1 (insurers to report their brands and where they are writing new business) is adopted, this disclosure should also refer consumers to this information. Finally, comparison websites should also be required to include, as part of this disclosure, the amount of commission and other remuneration that they receive for each product.

Comparison websites and insurance brokers only consider a sub-set of the market when providing a quotation or recommendations. Consumers should clearly understand the breadth of search a comparison website or insurance broker they are looking to use will undertake. This requirement should not preclude an insurance broker from considering a new product during the course of providing advice to a client, where this new product would not ordinarily be considered by the insurance broker (and therefore would not have been disclosed).
20. Claims processes and dispute resolution

Key points

- Insurers’ claims handling was a significant theme of our public consultation. Some local residents and property owners across northern Australia shared positive claims handling experiences, but many people shared examples of experiences that fell well below what they thought reasonable to expect.

- People told us about lengthy delays in claims settlement, excessive repair quotes and numerous cases of unsatisfactory work. It was clear to us that this exacerbated the distress and trauma these residents were already experiencing as a result of their losses.

- Submissions from stakeholders highlighted a range of potential problems that can arise when insurers decide to cash-settle claims, particularly when the settlement amount is based on trade prices that would not be available to the consumer paying market prices.

- There are a range of circumstances where a consumer may prefer a cash settlement and we consider that, subject to certain safeguards, the manner in which a claim is settled should be at the discretion of the consumer.

- It was apparent from submissions that many consumers are not adequately aware of their rights to make a complaint to their insurer or to escalate complaints to the Australian Financial Complaints Authority. We consider consumers need to be explicitly reminded of this at the time of lodging a claim, not just when taking out a policy.

- Stakeholders with experience in the building industry, among others, raised concern about the lack of independence of loss adjusters and other third parties engaged by insurers to assess damages and prepare scope of works. Property owners recognised the disparity in outcomes depending on how the initial claim was assessed and by whom.

- Property owners also want to have more control over who undertook repairs, claiming insurers should preference local tradespeople who are more familiar with local conditions and regulations. Insurers explained panel arrangements with suppliers are often more cost and time efficient.

- The 2014 General Insurance Code of Practice (the Code) sets out minimum standards insurers must meet in handling claims and complaints. While natural disasters and catastrophes that give rise to a high volume of claims can stretch insurers’ capacity to meet the Code standards, the effectiveness of the Code in otherwise maintaining high standards of practice was not clear; it is a voluntary code with minimal repercussion for breaching it.

- While we support recent revisions to the Code, they do not go far enough to meet our concerns. Australian Securities and Investment Commission’s (ASIC) approval should also be sought.

- Impending changes to the enforceability of industry codes, arising from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services, could potentially lead to further improvements to the Code.

This chapter considers insurers’ processes in the event of a claim, including how claims are settled. It discusses the role of loss adjusters\(^{711}\) as well as insurers’ arrangements with tradespeople\(^{712}\). It also considers dispute resolution options available to consumers and compliance with the Code.

---

\(^{711}\) In this chapter, we generally refer to ‘loss adjuster’, although we recognise this term may be used interchangeably with loss assessor or claims assessor in practice.

\(^{712}\) We note this includes all contractors engaged to rebuild buildings or conduct repairs. Where we use the term ‘repair’ or ‘cost of repairs’ we mean this to include ‘building works’ and ‘cost of building works’. Where we use the term ‘repairer’ we also mean this to include ‘builder’.
20.1 How do claims work?

An insurer’s Product Disclosure Statement (PDS) will set out to a consumer how to make a claim. The PDS will explain, at a high level, how the insurer will assess a loss and how it may settle a claim. Importantly, it will also advise the consumer about what to do if they are not satisfied with an insurer’s decision and how to make a complaint, including an internal and external dispute resolution process. This important information is generally provided at the commencement of a policy and not as comprehensively when a claim is made, in particular the consumer’s right to access dispute resolution.

The current 2014 Code sets the minimum standards for insurers to meet in handling claims. The Code is voluntary and self-regulated by the industry. It sets timeframes around key steps, including in relation to notifying a consumer about any appointment of loss adjustors and determining whether a claim is payable. The Code also addresses standards relating to repairs and standards for service suppliers. The Code acknowledges that during times of ‘catastrophe and disaster’ large numbers of claims may prevent insurers from meeting all the prescribed standards. The Code is discussed further in section 20.5 of this chapter.

We set out below how an ‘ideal claim’ unfolds, from the initial lodgement of the claim to the settlement of the claim. The way in which each of these processes is conducted and the potential conflicts of interest between an insurer and other parties involved in a claim will be examined further, as well as how these processes can break down in the event of a natural disaster.

The ‘ideal’ claim

A claim is initiated by a consumer following an event that has caused damage to their property. How an insurer responds to the initial lodgement depends on the estimated extent of damage and cost of remediation, the urgency of required repairs, and on whether further investigation of the claim is likely to be required.

Initially an insurer will attempt to determine if emergency, or ‘make-safe’, repairs are required in order to reduce the risk of any further damage and secure the property. If so, an insurer will generally arrange for a repairer to attend the property within one to two days to do emergency works such as applying a tarp to the roof to prevent further water ingress, or placing a security cordon across dangerous or open areas of the property to prevent access.

The insurer may then decide it is necessary to assess the claim. This will usually be by the appointment of a loss adjuster who attends the property to inspect the damage and reports back to the insurer with its views on if the claim should be accepted under the terms and conditions of the policy. The loss adjuster’s advice, policy interpretation and proposal to cash settle or repair will set the path the rest of the claim will follow.

Should the claim proceed, the next step is to arrange for a repairer to prepare a full scope of works which itemises in detail the areas of damage and provides a cost for the repairs. Insurers typically operate a panel of preferred builders or repairers who, based on their contractual arrangements, will provide prices to the insurer (that may not be the same prices available to the general public). An insurer may also request the customer provide a secondary quote from its own repairer for comparison.

At this stage, an insurer will consider the cost of the repairs and the circumstances of the claim. The insurer and customer should then agree on how to finalise the matter. This may be through a cash payment to the customer to the value of the repairs (a cash settlement), or the formal appointment of a repairer to undertake the repairs.

20.2 Assessing a claim and the role of loss adjusters

An insurer will typically appoint a loss adjuster to attend a property that is the subject of a claim and examine the cause and extent of the loss. The loss adjuster will then determine the scope of damages, consider this against any policy terms and limits that may apply, and report back to the insurer with its recommendations on how to proceed. Throughout the life of the claim, a loss adjuster may appoint repairers/builders or other experts to further investigate the cause of damage, and otherwise negotiate
settlement between the insurers, repairers, and customers. In other cases, they may pursue recovery from a third party for damages.

The Australian Institute of Chartered Loss Adjusters, a peak body representing the industry, describes the role of a loss adjuster as a ‘bridge’ between parties, being generally an insurer and a consumer. As an intermediary, all decisions and communication between a consumer and insurer will generally pass through the loss adjuster. This can present problems if there are disagreements with the assessment or the progress of the claim and remove too much control or oversight from the insurer.

Subscribers to the Code often and increasingly engage service suppliers (including investigators, loss assessors and adjusters, collection agents and claims management services) to conduct claims-related functions. Between 2015–16 (when the Code Committee began collecting data on this section of the general insurance workforce) and 2016–17, the number of service suppliers increased 36% from 5,777 to 7,860. In 2017–18 this number jumped again to 9,517, an increase of 21% on the previous year.

### A loss adjuster is an agent of the insurer

Whether direct employees or outsourced contractors, loss adjusters are agents of the insurer. They are appointed to ‘adjust’ or minimise the total cost of a claim. They achieve this through their interpretation of the relevant PDS and how the conditions and limitations might apply and also through their role in negotiating how claims will proceed with respect to approved repairs.

Loss adjusters are paid by an insurer to decide what costs will be accepted in a claim, and what costs will not. They are under no obligation to advocate for the interests of the consumer.

How much they are paid will likely vary between loss adjusting companies and the particular insurer that they have entered into a contract with. Generally, however, we understand the fee received is commensurate with the size of the claim. This may be either through a percentage of the total cost of the claim, an hourly rate for service, or a fee structure that operates on a sliding scale.

A loss adjuster may also be acting under a Delegation of Authority from an insurer and be able to accept, authorise, or otherwise make claims decisions on behalf of the insurer without referral. This delegation is significant: information we obtained from insurers suggests this delegation could be for claims of up to $50,000. An important exception to this authority, however, is where a claim is to be denied. In these instances, a loss adjuster makes a ‘recommendation’ to the insurer who as the provider of the product must communicate denied claims to the consumer. In a submission to our inquiry, a building engineer highlighted its concerns with the apparent independence of loss assessors (see first item in box 20.1 below):

---

Box 20.1: Extracts from submissions from local experts, residents and property owners

‘One of the fundamental issues is that Loss Assessors, engineers and building consultants who are sent to these properties to make the damage assessments, effectively are working for the Insurers. The independence of their reports and assessments are questionable as on almost all occasions we have provided evidence in our reports that the assessments/conclusions reached, and the subsequent builder’s Scope of Works, were flawed.’

‘In my job I meet with many people impacted by cyclones. The delays in assessors reporting or conflicting reports or very long times for the rebuild (with no ongoing support or checks from insurer[s]) causes a great deal of stress for the occupants.’

‘There are huge disparities between the outcome claimants receive, as it depends on the assessor.. There were people who had up to 3 roofs put on their house and it still leaked.

‘I worked for an insurance assessor after cyclone Larry and was appalled by the manager’s decision making. If he didn’t like the client he would advise the insurer not to payout and would report the property had insufficient drainage etc which majority of the time wouldn’t have been the case. This assessor came from Brisbane into Townsville which he had no understanding of the suburbs drainage etc. I believe his decision making was unprofessional. He didn’t even hold a builders license so was totally unqualified in my opinion.’

The issue of the unclear status and independence of third-party experts such as loss adjusters have also been examined in previous inquiries. In its 2012 report on the Operation of the Insurance Industry during Disaster Events (Disaster Events report), the House of Representatives Standing Committee on Social Policy and Legal Affairs noted a common perception among communities that third parties employed by insurers may favour the insurers when issuing reports.

In this report, Queensland MP Andrew Cripps summed up concerns regarding this issue:

*In many ways, the fate of the policy holders’ claim is in the assessor’s hands. Who are these assessors? What say does a policy holder have in the appointment of one to assess their claim? Can policy holders have confidence that they have the skills and experience to undertake an assessment of the damage to their property? Where and by who are they trained? Who regulates their profession? ... What rights do policy holders have to seek a review of the assessor’s report, or have another one done to verify it?*

We consider the issue of what information should be provided to a consumer at the outset of a claims process (including the role of loss adjusters) in section 20.3.

**Denied and withdrawn claims**

For the 2017–18 financial year, information obtained by the ACCC shows that the incidence of denial of home and/or contents insurance and strata insurance claims is at approximately 6%.

Figure 20.1 shows the final claims decision and claims outstanding for claims lodged from 1 July 2017 to 30 June 2018.

---

716 Abscan Building Consultants supplementary submission to the NAII issues paper, p. 1.
717 Anonymous 103 submission to the NAII issues paper.
718 Anonymous 132 submission to the NAII issues paper.
719 Anonymous 77 submission to the NAII issues paper.
720 House of Representatives Standing Committee on Social Policy and Legal Affairs, *In the Wake of Disaster, Volume One: The operation of the insurance industry during disaster events*, February 2012, p. 60.
721 ibid, p. 61.
722 This is as a percentage of total claims lodged, less those where a claims decision is still outstanding.
From data received there is little difference in the proportion of finalised, denied, and withdrawn claims in northern Australia compared to the rest of Australia. This suggests that an insurer’s claim decision remains consistent regardless of geographic location.

There is an obvious variation in the percentage of claims outstanding for each insurer, with some having a significantly larger portion of claims that are ongoing as of 30 June 2018. This may indicate the timing of claims lodged within the last financial year or different settlement processes utilised by each insurer.

We note that the incidence of withdrawn claims is substantially higher than claims that have been denied by insurers, at approximately 12.5% of all claims lodged (excluding claims still outstanding) within the last financial year. Consumers often withdraw claims if advised by an insurer that they are likely to be denied, in order to avoid the future negative effects of having had a claim denied (which could include a premium loading, or being denied coverage altogether). For one insurer the percentage of withdrawn claims is approximately 32% of all claims lodged with them (excluding claims still outstanding) over the same period. This demonstrates that consumer understanding of their product coverage needs to be improved. This is consistent with findings in previous chapters regarding consumer understanding.

We acknowledge some limitations in the data, in particular as it relates to partially accepted claims or whether the withdrawal was initiated by the consumer or the insurer. However, irrespective of this, the prevalence of withdrawn claims is of concern. This indicates there may be problems with this particular insurer’s communication and information provided about product terms and conditions and claims assessment.

### 20.3 Settling a claim

Insurers’ claims handling was a significant focus of our public consultation. Local residents and property owners across northern Australia shared some examples of their satisfaction with their insurer, but also many examples of where their experiences fell well below what they thought reasonable to expect. For example, local residents spoke of lengthy delays in claims settlement, unsatisfactory standards of work and pressure to accept an insufficient cash settlement.
Insurance claims to be considered a ‘financial service’

Currently, handling insurance claims is explicitly excluded from the definition of a financial service for the purposes of the Corporations Act 2001 (Cth) (Corporations Act) and this means that ASIC’s powers generally do not apply to claims handling.723

In 2016, ASIC undertook a review of claims handing in the life insurance industry. Among its recommendations, ASIC called for the regulatory framework for claims handling to be strengthened by removing the current exemption and that more significant penalties for misconduct in relation to insurance claims handling also be considered.724

It was suggested that removing the exemption for claims handling would allow ASIC to take action in response to insurers’ conduct, for example in relation to unnecessary or extensive delays in handling claims and incentive schemes for claims staff that conflict with the insurer’s obligation to assess each claim on its merit. In releasing the report, the government announced it would ask Treasury to proceed with this recommendation and undertake targeted consultation on the merits of removing the exemption for claims handling practices.725 This recommended change was also addressed by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission).

In February 2019, the Royal Commission released its final report recommending that the handling and settlement of insurance claims, or potential insurance claims, should no longer be excluded from the definition of ‘financial service’ (Recommendation 4.8).

The Government agreed with this recommendation and acknowledged that inappropriate claims handling practices can cause significant consumer detriment as highlighted through the Royal Commission’s round six hearings into insurance.

On 29 November 2019, the Government released for public consultation exposure draft legislation and regulations to:726

- remove the exclusion in the Corporations Regulations 2001 (Cth) (Insurance Regulations) of insurance claims handling and settlement services from the definition of a ‘financial service’ in the Corporations Act
- specifically make handling and settlement of an insurance claim, or potential insurance claim, a ‘financial service’ under the Corporations Act
- tailor the application of the existing financial services regime to the new financial service of handling and settling an insurance claim. This includes specifying persons that must hold an Australian Financial Services Licence (AFSL) that covers handling and settling an insurance claim; excluding recommendations or opinions that are reasonably necessary as part of handling and settling an insurance claim from the financial product advice regime; and requiring persons to provide a Statement of Claim Settlement Options to insureds who are retail clients if the insurer is offering to settle all or part of a general insurance claim through cash settlement instead of repairing or replacing the insured item (this is discussed further in the cash settlements section below).

On 12 November 2020 the Government announced a package of legislation introduced into the Parliament, which includes these new laws.727

---

723 Regulation 7.1.33 of the Corporations Regulations 2001 (Cth) specifically excludes activities carried on in the course of handling an insurance claim for the purposes of the definition of ‘financial service’ in section 766A of the Corporations Act.


Once the new laws come into effect, persons who handle and settle insurance claims will be subject to the financial services regime in the Corporations Act. They must hold an AFSL that covers insurance handling and settling services and comply with the general conduct obligations under section 912A of the Corporations Act, which include to:

- do all things necessary to ensure they provide the financial services efficiently, honestly and fairly
- have adequate arrangements in place to manage their conflicts of interest
- comply with their AFSL conditions
- comply with the financial services laws
- take reasonable steps to ensure their representatives comply with the financial services laws
- have available adequate resources to provide the financial services covered by the AFSL and to carry out supervisory arrangements
- maintain the competence to provide the financial services
- adequately train their representatives and ensure that they are competent to provide the financial services
- have a dispute resolution system that satisfies s912A(2) where financial services are provided to retail clients (including membership of the Australian Financial Complaints Authority (AFCA) scheme)
- have adequate risk management systems
- have compensation arrangements where financial services are provided to retail clients.

The exposure draft explanatory materials also provide some additional guidance about what will be expected of an insurer subject to the section 912A general conduct obligations. This includes that, at a minimum licence holders will be required to handle and settle an insurance claim:

- in a timely way, without undue delay, balancing the negative effects of delay on insureds with the insurer’s reasonable requirements for handling and settling an insurance claim,
- fairly and transparently, with information about the handling and settling process, the reason for information requests, and reasons for decisions provided to insureds.

The general conduct obligations are civil penalty provisions, and this means that ASIC may seek a pecuniary penalty order where a Court finds there to have been a contravention.

ASIC may also seek to suspend or cancel a licence when a licensee has not complied with their general conduct obligations.

**Insurers have discretion to determine how a claim will be settled**

Insurers typically retain discretion to decide how a claim is settled and will continue to do so if the changes outlined above are made. This will be communicated to a consumer in the relevant PDS (see example in box 20.2 below).

---

728 The type of compensation arrangement that an AFSL must have is set out in s912B (and see also regulations 7.6.02AA and 7.6.02AAA of the Corporations Regulations 2001 (Cth)).

Box 20.2: Example of discretion to settle a claim

We choose how we settle home claims

If we agree to pay a claim for loss, theft or damage to your home, we will decide if we will:
- repair damage to your home
- rebuild your home
- pay you what it would cost us to repair or rebuild your home
- pay you the sum insured for your home.

We choose how we settle contents claims

If we agree to pay a claim for loss, theft or damage to your contents (including contents with flexible limits and personal valuables), we will decide if we will:
- repair damage to the contents
- replace the contents ‘new for old’
- pay you what it would cost us to repair or replace your contents or any lower limit that applies
- pay you the sum insured for your contents or any lower limit that applies.

This discretion is potentially very significant at the time of making a claim but may be easily overlooked by a consumer at the time of taking out an insurance policy.

Information sought from insurers in 2018 revealed that most insurers do not have a ‘formal policy’ governing the decision whether to settle with a cash payment or by repair/rebuild, rather it is generally considered on a case by case basis.

Insurers did advise that there are particular circumstances or factors they will take into account in a decision to provide a cash settlement, such as:
- when it is specifically requested by the customer
- where repairs have already commenced or been conducted
- where there is only partial acceptance of the claim due to respective policy exclusions, such as in the case of lack of maintenance or wear and tear
- part of the loss or damage is not indemnifiable under the policy
- if the item cannot be replaced/repaired
- where the cost exceeds the policy, sum insured or applicable item limit.

Most insurers submitted that they generally had a preference to repair or rebuild as a means of settling claims but data obtained by the ACCC indicates that insurers in fact often make cash settlements.

The data provided by insurers also confirms that the majority of claims for home (building) insurance are currently being finalised by way of cash settlement to consumers. There do not appear to be significant differences in the approach taken between northern Australia and the rest of the country, as shown in figure 20.2.

---

730 This example is from the Suncorp home and contents insurance PDS, prepared 19 October 2012, viewed 21 September 2020, p. 69, but it is broadly the same as equivalent clauses in the PDS of other insurers.

731 Insurers varied in relation to how they categorised claims, particularly those that were settled by a combination of both cash and payment to a supplier/repairer. This included categorising settlement in relation to the dominant payment type, categorising cash settlement where 85% or more of the claim was paid in cash or categorising cash settlements only where the entire claim was cash settled. Some insurers were unable to differentiate for building and home contents insurance between payments to panel repairers or non-panel repairers. As such, for figures 20.2 and 20.3 these have been grouped into a separate category labelled ‘repairer/supplier not specified’. One insurer reported all payments to a consumer’s repairer as cash settlements, however the effect of this approach on the overall figures is expected to be minor.
Where claims were not finalised with cash settlements, but rather through repair work paid for by the insurer, this work was carried out by the insurer’s own repair network in most cases. Consumers used their own repairers with the agreement of (and reimbursement from) insurers in approximately 2% of all home building cases.

Figure 20.2: Proportion of claim settlement options used by insurers for home (building) insurance, 2017–18

![Figure 20.2](image)

Source: ACCC analysis of data obtained from insurers.

Figure 20.3 shows that over 65% of all contents claims nationally were finalised by cash settlement. From contracts obtained, we note that some insurers will enter into panel agreements with suppliers of consumer electrical goods, hardware and tools, jewellery and furniture. These suppliers function in much the same way as an insurer’s building panel and will supply replacements of damaged contents at preferential rates.

Figure 20.3: Proportion of claim settlement options used by insurers for contents insurance, 2017–18

![Figure 20.3](image)

Source: ACCC analysis of data obtained from insurers.
As noted in figure 20.4 regarding strata, in north Western Australia there appears to be a preference for insurers to reimburse a body corporate for their own repair or replacement costs, and that both cash settlement and appointment of an insurer’s panel repairer are marginal. The remoteness of communities in the north of Western Australia is likely to mean insurers’ repair networks have a limited presence there. We also acknowledge the sample size for north Western Australia over the 2017–18 period is relatively small. Cash settlements for strata insurance claims are also more common in northern Australia than the rest of Australia. This is in contrast to home (building) insurance, where there were similar rates with the rest of Australia (shown in figure 20.2).

**Figure 20.4:** Proportion of settlement options used by insurers for strata insurance, 2017–18

Source: ACCC analysis of data obtained from insurers.

**Cash settlements**

Cash settlements can facilitate a swift resolution of a claim and allow consumers to undertake (their own) repairs or a rebuild more quickly and with more autonomy. It could also provide more flexibility to consumers to relocate or redesign their property.

Some property owners in northern Australia indicated to us that this was, or would be, their preference in the event of a claim for total loss of their home.

Despite offering some appeal to some consumers, various stakeholder groups continue to highlight their concerns with the way in which insurers use cash payments to settle claims.

Insurers may determine the amount of a proposed cash settlement with reference to what it would cost them (the insurer) to repair or rebuild the property, based on trade discounts and agreements with panel tradespersons. This may differ significantly from the costs consumers would face to rebuild or repair their homes and could leave them out of pocket.

In its submission to our inquiry, the Financial Ombudsman Service (the FOS’s role is now undertaken by the Australian Financial Complaints Authority) set out observations based on its experience in resolving general insurance disputes. FOS advised as follows in relation to the adverse outcomes that can arise for consumers though the overuse of cash settlements by an insurer:

- The cash settlement amount may be insufficient because it is based on quotes provided by the insurer’s panel builders, which include volume discounts and rebates.
- Consumers may be required to manage complex repairs projects where they do not have the knowledge and experience required to do so.
Consumers are deprived of the lifetime guarantee available where repairs are completed by the insurer’s contractors and therefore bear the risk of any subsequent problems.\textsuperscript{732}

Cash settlements were also raised in the context of concerns about an imbalance of power between insurers and consumers and used as an example of a potential unfair contract term.

Across our public forums we heard people say that cash settlements offered were not enough and conversely insurers were inclined to directly accept quotes from repairers that consumers felt were too high or thought could be done for less by local contractors.

**Provision of a Statement of Claim Settlement Options**

The proposed changes to the Corporations Act introduce an obligation on persons who handle and settle insurance claims to provide a Statement of Claim Settlement Options if the person offers a cash settlement to settle all, or part of, an insurance claim rather than repairing and replacing the insured item. The Statement of Claim Settlement Options must include the following:

- the options for settlement legally available under the insurance contract (for example, the option to have the insured product repaired or replaced and the option to receive a cash payment)
- a statement setting out the amount of the cash settlement being offered and the sum insured under the insurance product
- a statement that the insured should obtain independent financial advice before settling
- any other information prescribed by the Insurance Regulations.

The exposure draft regulations do not prescribe any further requirements in relation to the Statement of Claim Settlement Options.

It is important to note that if a person is not offering a cash settlement to settle any part of an insurance claim, there is no need to provide the prescribed Statement of Claim Settlement Options.

We also note that in the revised 2020 General Insurance Code of Practice, due to be implemented in full by insurers by 1 July 2021, where insurers offer a cash settlement under a home building policy they are required to provide a customer with information to help them understand how cash settlements work and how decisions are made on cash settlements.\textsuperscript{733} This will assist with greater transparency and consumer understanding, which is addressed further in recommendation 20.1 below.

**Settling a claim by rebuilding or repairing**

At a time of distress and vulnerability, some consumers might have a stronger preference for insurers to case manage a repair or rebuild, including engaging and guaranteeing the tradespeople and their work.

**Tradespeople and quality of work**

Information we obtained from insurers suggests most generally have a preference to engage a builder/repairer from their panel. This can allow the insurer to authorise repairs more swiftly, achieve cost and time efficiencies, and guarantee both the quality standards of the repairs.

However this is not always the case, with some insurers more willing to engage local trades. One insurer noted that all of their preferred repairers that service northern Australia have offices or satellite offices in the area with local supervisors and/or estimators. Where possible, these repairers use local licenced trades to complete repairs who typically have a better understanding of local building codes, the local area, and building characteristics such as average building age, construction type and roofing materials.

Another insurer also stated that it has designed its supply panel to ensure that it can support the local trade industry. A number of insurers also noted that selection criteria for their panel tradespeople are based on categories including regional coverage and provides that repair networks can be supplemented by local repairers during times of high demand.

\textsuperscript{732} Financial Ombudsman Service submission to the NAII issues paper, p. 8.

\textsuperscript{733} General Insurance Code of Practice 2020, Part 8, paragraph 79.
Who undertook the repairs was a theme raised by a number of property owners in northern Australia. Some expressed frustration with the lack of preference given by insurers to local tradespeople. One of the particular concerns local residents raised was that insurers favoured more expensive quotes from non-local repairers who may have less awareness of local conditions and provide lesser quality outcomes.

This concern is supported by an earlier 2011 report published by James Cook University, *Tropical Cyclone Yasi structural damage to buildings*, which reported that repairs conducted by builders from within the cyclone region may have had higher success in withstanding a cyclone than those from outside of the region.734

Legal Aid Queensland (LAQ) submitted that builders and consumers reported instances of insurers selecting quotes far more expensive than those that have been given by other builders for works of similar scope.735 This is also discussed further below.

Residents of north Queensland also discussed poor quality repairs through the online survey. Some examples are in box 20.3 below.

---

Box 20.3: Extracts from submissions from local residents and property owners

‘We have helped people crying, unable to manage the process that requires forms, ongoing correspondence and management of a complex process. The most serious have involved customer claims handled by the insurer, engaging construction services and builders that were not qualified, were over-paid and delivered faulty work. In some cases there were building surveyors, engineers and builders from outside the area causing most of the problems. We are still engaged with a cyclone damaged house in Cardwell that is on to its 2nd builder with a QBCC claim and now a QCAT claim for work from 2012.’736

‘...I thought I had escalated 3 times only to be told 5 months later that I hadn’t escalated at all! 11 week delay to get the mould in my house checked and assessed (Family very sick requiring hospitalisation!) 17 weeks to carry out mould testing, mould then taking over my house and causing more damage to my house and contents. Insurance Companies employing contractors that are either not qualified or experienced to give expert reports. 17 weeks to get the house reassessed (phone calls every week).’737

‘...We have had three questionable engineering reports and one unsatisfactory roofing report to refute, before finally being granted a new roof a few months ago. Now the panel builder has ignored the scope of works which required an engineer to be engaged to determine the wind rating, tie downs and upgrade. I have had to fight for this happen so now holding up the roof, when I requested the copy of the engineering report some time ago. It appears that the roof was going to go on without abiding by the code which required this to happen... We also had to refute a questionable flooring report by a mate of the assessors and the engineers that we had, all seem to be in relationships with the panel builders and insurance company. We had a similar experience with the claim for the other house ... [The insurer] has spent thousands on these questionable reports to reduce our claim and could have put that money to fixing the damage. This has also caused considerable delays to the resolution of the claims and affected our health.’738
FOS also noted in its submission:

In areas where extreme weather events occur, buildings need to meet additional requirements. Repairs in those areas, which may present additional difficulties, have been the subject of disputes considered by FOS.

The ongoing exposure of properties to severe weather events means that inadequate repairs may result in significant additional damage. 739

Managing contracts with panel repairers

We conducted a review of panel repairer/builder contracts obtained through the inquiry. These proved to be very comprehensive designed to minimise cost and obtain value for the insurer. They imposed high service standards and contained a series of performance measures and indicators that repairers were required to adhere to. These included average repair costs, customer satisfaction, claim cycle time, quote cycle times etc. The contracts also provided for regular performance reviews and capability to conduct audits to ensure repairers were adhering to their contract terms. Insurers were generally able to terminate contracts at their discretion.

It was not clear to what extent performance reviews actually take place and how a repairer’s delivery of the contract terms is managed in practice, including by removing a repairer from a panel. Internal documents obtained from insurers also indicated that periodic discussions do take place (although they did not indicate how often), however repairers may still over quote, with insurers seeking to negotiate and lower costs.

An email obtained by this inquiry from one insurer sheds some light on the internal process regarding selection and management of panel repairers and how they may still attempt to over quote.

Box 20.4: Extracts from internal email

‘…I had to share this one—this claim was in far North Queensland—a storm claim impact from tree…:

Original quote $75K

Second tender $44K

Third tender and awarded - we waited until the repairs were completed at a cost of $10,594.

A saving of nearly $65K!!’… [Home Assessing Manager]

‘…Thought you would get a laugh out of this. I’m surprised this particular builder [builder name] isn’t removed from our [insurer name] panel. It seems we pick and choose who can or can’t quote excessively and get away with it.’ [Procurement Manager]

‘One for you to take up with them [the builder] in your periodic discussions…’

Some submissions indicated that the agreements between builders/repairers and insurers are not working as intended to minimise costs, with LAQ noting that:

While a number of factors affect insurance costs, consumers are reporting to LAQ that repair costs are well above ordinary market rates. While increased demand for building and repair services naturally rises after a damaging event and it is expected prices may reflect this relative scarcity, many consumers feel they are being gouged by tradesman to complete repairs.

This is recognised by insurers who have established panels, preferred suppliers, multiple quotes and other mechanisms to obtain value from repairers. However, LAQ is informed these mechanisms are not working as intended to minimise repair costs. Builders and consumers have reported that insurers have selected quotes far more expensive than those that have been given by other builders.

739 Financial Ombudsman Service submission to the NAII issues paper, p. 8.
for works of similar scope. This apparent choice of inferior quotes is affecting confidence in the insurance market.\textsuperscript{740}

The need to appropriately manage building and repair costs for insurers is arguably even more important in northern Australia. The Insurance Council of Australia (ICA) submitted that rebuilding costs in the region are up to 42\% higher than in the south.\textsuperscript{741} Our own analysis based on 2017 costs suggests that, within northern Australia, northern Western Australia had the highest average rebuild costs ($619,378) compared to northern Queensland ($559,122) and the Northern Territory ($581,695) for a standard property.

High rebuilding and repair costs in northern Australia is also considered in chapter 13, and the impact this has on premiums is considered in chapter 4.

Catastrophe and disaster arrangements

Information we obtained from insurers in 2018 suggests that most provide explicit acknowledgment of catastrophes/major events in their arrangements with suppliers and how these should be managed to optimise service delivery. Different service standards and fees are also applied by most insurers to suppliers servicing rural areas and/or responding to catastrophe events.

In information we obtained specifically about insurers’ composition and operation of any building repair network, some insurers made reference to how they manage catastrophes. This includes ensuring repairers/builders have the capability to increase their resources from within their state and nationally and are able to respond to large scale catastrophe events within hours, and panel design ensures that it can support the local trade industry to provide a relative response for its customers during peak events.

Consumer understanding of the claims process

Insurers will generally provide varying amounts of information to a consumer when they make a claim. This may include the steps to be undertaken in assessing and settling the claim, including a link to or copy of their PDS. Only limited information seems to be provided on how they make a decision, appoint a repairer or agree to settle a claim; and to reinforce the consumer’s access to dispute resolution should they be dissatisfied with a claim outcome.

The 2014 Code does not specifically outline what information an insurer must provide to a consumer when lodging a claim. It only advises the following in relation to making a claim:

- a consumer is entitled to ask if its insurance policy covers a particular loss before a claim is lodged
- if a consumer makes a claim and the insurer does not require further information, assessment or investigation, it will decide to accept or deny the claim and notify the consumer of their decision within ten business days of receiving the claim
- if the consumer makes a claim and the insurer requires further information or assessment, within ten business days of receiving the claim, the insurer will:
  - notify the consumer of any information the insurer requires to make a decision
  - if necessary, appoint a loss assessor or loss adjuster, and
  - provide an initial estimate of the timetable and process for making a decision on the claim.\textsuperscript{742}

We note that the Code has recently been updated with the new 2020 Code due to be implemented in full by insurers by 1 July 2021. The 2020 Code includes new content about making a claim, including that insurers will tell the customer:

- about their claims process
- about any excess amounts they have to cover or pay in relation to their claim
- about any waiting or no cover periods that need to finish before they start paying under the policy

\textsuperscript{740} Legal Aid Queensland submission to the NAII issues paper, p. 3.  
\textsuperscript{741} ICA submission to the NAII issues paper, p. 14.  
\textsuperscript{742} See 7.8–7.10 of the General Insurance Code of Practice 2014.
how to contact the insurer regarding their claim.\textsuperscript{743}

The 2020 Code also includes:

- a new section on scope of works for a home building claim and states that if a scope of works is needed for a home building claim, the insurer will provide the customer with information to help them understand how it works, its purpose and the process involved\textsuperscript{744}
- a new requirement that where an insurer appoints a Loss Assessor, Loss Adjuster, Investigator or Employee the insurer will advise the customer what their role is (in addition to the fact that they have appointed them) within five business days\textsuperscript{745}
- a new section on cash settlements that states if the insurer offers a cash settlement under a home building policy, they will provide the customer with information to help them understand how they work and how decisions are made on cash settlements.\textsuperscript{746}

The ICA noted in its final report of the review of the General Insurance Code of Practice in 2018 that it supports the claims process being more transparent, timely and easier to navigate, to aid consumer understanding about what can be an unfamiliar process.\textsuperscript{747} We support the changes made to the new and revised Code but believe it falls short of all the things a consumer should be told at the outset of a claims process, which are outlined in our recommendation below.

\textbf{Recommendation 20.1}

\textbf{Better information for consumers lodging a claim}

The General Insurance Code of Practice should be amended to require that, at the time a consumer lodges a claim, an insurer or its agent must clearly inform the consumer of the insurer’s claim handling policy, and expressly refer to:

- how the insurer will assess the validity of the consumer’s claim
- the insurer’s preferred repairer policy and in what circumstances a consumer can use their preferred repairer
- how decisions are made on cash settlements
- who will be managing the claim (for example, the name and contact details of a contracted claims company if relevant)
- the fact that the loss adjuster is acting on behalf of the insurer and not the consumer
- the consumer’s right to make a complaint to the insurer and the Australian Financial Complaints Authority.

We note that the impending changes to the Corporations Act regarding removing the exclusion of insurance claims handling and settlement services from the definition of a ‘financial service’ do not specify the information required to be provided to an insured at the time of a claim. The general obligations that will be imposed by this change are principle-based and designed to apply in a flexible way. The Explanatory Memorandum provides some guidance on the minimum standard expected (such as handling and settling a claim fairly and transparently, with information about the handling and settling process) but otherwise the responsibility lies with the insurer to decide what specific information to supply to consumers when they lodge a claim. As such, this recommendation will complement the new laws and an insurer’s general requirement to act efficiently, honestly and fairly in relation to handling and settling an insurance claim.

\textsuperscript{743} General Insurance Code of Practice 2020, Part 8, paragraph 59.
\textsuperscript{744} ibid, paragraph 61.
\textsuperscript{745} ibid, paragraphs 72 & 73.
\textsuperscript{746} ibid, paragraph 79.
Giving consumers a greater say in how their claim is settled

Stakeholders have raised concerns with the potential for cash settlements to leave consumers worse off. This concern arises not from cash settlements per se, rather when it is against the consumer’s wishes to accept a cash settlement and/or when the amount offered is perceived as being inadequate for a consumer to repair or rebuild its property.

There is currently no express requirement for an insurer to take into consideration a consumer’s preferences in making its decision about how to settle a consumer’s claim. We propose that consumers must be given the right to make this decision. That is, the consumer can either require the insurer to rebuild or repair the property or choose to take a cash settlement based on what it would cost the insurer to undertake the work.

Cash settlements provide more flexibility for consumers, for example to relocate, renovate, modernise, down-size. It also allows them to engage the tradespeople of their choice (for example local people if this is important to the consumer). But they are also inherently more risky for consumers as they must assume responsibility for overseeing any work they choose to undertake, These advantages and risks are present regardless of which party makes the decision about settlement—just currently the allocation of risk is at the discretion of the insurer.

Should a consumer opt for a cash settlement, the appropriate amount would generally be the lowest price quoted to the insurer meeting an agreed scope of works. This amount may reflect discounts or rebates provided to the insurer by a panel tradesperson which would not be available to a consumer using that tradesperson. However, a consumer opting for a cash settlement would not be limited to using one of the tradespersons that had provided a quote to the insurer. Instead, it could compare the proposed cash settlement amount with quotes obtained from other tradespersons. In contrast with current arrangements, if the consumer could not procure the repair work at a cheaper rate than the insurer could, they could choose not to settle a claim by way of a cash settlement.

Cash settlement amounts may also need to be adjusted to reflect work already undertaken, where part of a claim is not accepted due to exclusions and other policy limits, and the overall sum insured. We note such adjustments are already made in situations where an insurer opts for a cash settlement.

Consumers will be more likely to opt for a cash settlement in situations where the insurer’s preferred quote amount for the necessary works is relatively high. In such cases, a consumer opting for a cash settlement could separately commission the work for a lower cost and retain the difference. This approach will not leave insurers any worse off financially as they would have incurred the same cost had the consumer (or insurer) opted against a cash settlement.

We understand there may be circumstances in which a cash settlement is the only viable option. For example, repairing a shared fence, or if a home is insured for significantly less than the cost of reinstating the property and the insured is unwilling to contribute to the cost of repair. However, we believe the circumstances in which this may occur are limited and can be dealt with by way of appropriate drafting of legislation, by allowing for exemptions in specified, but limited circumstances.

We also recognise concerns that some consumers may face unforeseen consequences if they opt for a cash settlement. However, these concerns exist irrespective of whether it is the consumer’s decision or the insurer’s decision to resolve a claim using a cash settlement. We believe concerns can be mitigated via a requirement for insurers to provide consumers with clear notice of potential implications of accepting a cash settlement, including that a mortgage lender (if relevant) may require the proceeds from the cash settlement to pay down the loan amount, or be used to reinstate the property or carry out other works.

Any argument that providing consumers with the ability to insist on a repair/rebuild managed by their insurer could worsen affordability because the insurer cannot put in place a well-managed repair supply chain to drive down costs, raises the question of why it would be an appropriate consumer outcome for an insurer insisting on a cash settlement at a lower amount than the insurer’s repair/rebuild cost.

Instead, this recommendation would add a layer of pricing discipline on tradespeople providing quotes to insurers (including those on their panel) as they would need to quote knowing that, even if their quote was the lowest received by the insurer, if it was substantially higher than competitive rates, the
consumer could opt for a cash settlement and then engage a different supplier. Over time this could lower costs to insurers.

We note that the introduction of the Statement of Claim Settlement Options is consistent with our recommendation, but it does not cover all the information that we have recommended below that insurers provide to consumers when making settlement offers, including:

- if a cash settlement is accepted, the insurer would no longer be required to manage or guarantee the quality, cost or timeliness of any works the consumer decides to carry out
- the consumer should seek advice from their mortgage lender (if applicable) about any implications of accepting a cash settlement for their mortgage
- the insurer may be able to obtain lower repairing/rebuilding quotes than the consumer is able to achieve
- the consumer should obtain independent quotes for repairing/rebuilding their property before making their decision.

This information could be considered as other information prescribed by the regulations to be added to the Statement of Claim Settlement Options.

Our recommendation of giving consumers more control over insurance claims also goes beyond the provision of a single document and includes the recommendation that an insurer should give consumers a reasonable time to decide whether to accept a cash settlement offer, seek an amended offer, or elect to have the insurer manage the rebuild/repair.
Recommendation 20.2

Giving consumers more control over how home (building) claims are settled

Consumers should be provided with the right to choose whether their home building insurance claim is settled through a cash settlement or with a repair/rebuild managed by the insurer. The insurer must inform the consumer they have this choice at the time a consumer lodges a claim.

At the time of advising a consumer about this choice, the insurer should also provide the consumer with a one page document written in plain English setting out matters the consumer should consider to help them make an informed decision, including:

- if a cash settlement is accepted, the insurer would no longer be required to manage or guarantee the quality, cost or timely of any works the consumer decides to carry out
- the consumer should seek advice from their mortgage lender (if applicable) about any implications of accepting a cash settlement for their mortgage
- the insurer may be able to obtain lower repairing/rebuilding quotes than the consumer is able to achieve
- the consumer should obtain independent quotes for repairing/rebuilding their property before making their decision.

Limited exemptions when cash settlement is necessary include repairing a shared fence, or if a home is insured for significantly less than the cost to reinstate the property and the insured is unwilling to contribute to the cost of repair.

Where a consumer requests a cash settlement offer, the amount of the cash settlement offer should be based on a genuine quote the insurer has received to carry out the necessary repairs/rebuild. If no such quote has been received, the insurer should set out the basis for the cash settlement amount offered. Any ancillary expenses subject to the claim that are not within the scope of works for the quote (such as temporary accommodation costs) should be settled separately.

Upon receiving a cash settlement offer, the consumer should be provided with a reasonable time period to decide whether to accept the offer, seek an amended offer, or elect to have the insurer manage the rebuild/repair.

20.4 Delays in claims handling a cause for concern

Delays may occur at different stages of the claims process. This includes:

- deciding whether to accept or decline the claim
- damage assessment whether as part of the initial assessment in deciding whether to accept the claim or as part of determining the extent of the damage
- the time taken to finalise the accepted claims, whether by way of cash settlement, replacement or repair.

Insurers’ obligations to settle claims in a timely manner

The current 2014 Code requires its members to handle claims in ‘a fair, transparent and timely manner’ and sets out particular timeframes for the management of claims.748

The Code establishes minimum standards for insurers to meet in handling claims and complaints. It sets timeframes in which insurers will appoint loss assessors, requires insurers to give policy-holders updates

748 General Insurance Code of Practice 2014, Section 7. Claims. We note the updated General Insurance Code of Practice 2020, does not contain the same statement in its claims section.
as to the progress of their claims and respond to policy-holders’ requests for information. In addition, there is a 10-day time limit under which the insurer needs to provide a decision on claims. This is either from the day that the claim is lodged (assuming no further investigation is required), or otherwise from the time that an insurer receives all necessary information and investigations are completed. These timeframes can be varied by mutual agreement between an insurer and its customer.

The 2014 Code also has a separate section on catastrophes, which stipulates insurers will respond to catastrophes in an efficient, professional and practical way, and in a compassionate manner. It also advises that where a consumer has a property claim resulting from a catastrophe and is within one month after the catastrophe event causing loss, the consumer can request a review of where it thinks the assessment of loss was not complete or accurate. The consumer will have 12 months from the date of finalisation to ask for a review.

Claims delays during times of catastrophe

During times of natural disaster, the number of claims will increase, as will the workload of insurers, increasing the likelihood of delays.

Several previous reviews have considered claims delays during times of natural disasters and catastrophes. In 2012, the Disaster Events report outlined that it ‘received overwhelming evidence that insurers often failed abysmally to meet the timeframes in the aftermath of recent natural disasters…’ It made a number of observations, including that:

- in many instances, insurers did not meet the timeframes contained in the Code when responding to the large volumes of claims arising from natural disasters
- many consumers were subject to unreasonable delays in the assessment of their claims
- the widespread use of third parties by insurers added to the delay, as both insurers and consumers had to wait for their assessment
- even where claims had been resolved and insurers had accepted liability, they faced further delays with third parties contracted for the repair or rebuild.

Local residents and property owners across northern Australia shared many examples of claims processes that fell below their expectations, particularly in relation to delays and lengthy claim processes. It was evident to us that these delays were causing property owners a high degree of frustration and further distress at an already difficult time. In some cases, property owners considered the delays were causing even more damage to their property. Several examples are included in box 20.5 below.

---

749 General Insurance Code of Practice 2014, section 7.16.
750 We note the updated General Insurance Code of Practice 2020, now contains this section within Part 8: Making a claim.
751 House of Representatives Standing Committee on Social Policy and Legal Affairs, In the Wake of Disaster, Volume One: The operation of the insurance industry during disaster events, February 2012, p. 55.
752 ibid, pp. 52–54.
Timelines can be stretched in the case of a natural disaster or other large event where many people in the same area are affected, this increased demand for labour and material resources may even leave a consumer with a considerable delay between the event and make-safe repairs being completed.

The 2012 Disaster Events report found that:

The general insurance industry maintains that Australia is not able to meet the demand for tradespeople that occurs after natural disasters of such magnitude and scale as the recent extreme weather events. Suncorp Group admits that “the main issue has been the availability of these services in the context of extensive damage over a wide geographical area and the shortage of skilled workers. This has unfortunately led to some delays”.

The National Insurance Brokers Association (NIBA) claims that:

... there are simply not enough resources in the building and related trades and in other material suppliers to allow insurers to provide what might be regarded as a normal response within normal time frames when you have so many claims happening and so much damage occurring all at the same time.

The 2018 Royal Commission also considered claims delays and examined a number of case studies in the sixth round of hearings which related to the handling of home insurance claims following natural disasters or severe weather events.

753  M. Shaw submission to the NAII issues paper, p. 10.
754  Anonymous 26 submission to the NAII issues paper.
755  ibid.
756  Anonymous 132 submission to the NAII issues paper.
757  House of Representatives Standing Committee on Social Policy and Legal Affairs, In the Wake of Disasters, Volume One: The operation of the insurance industry during disaster events, February 2012, p. 60.
758  Mr Dallas Booth, Chief Executive Officer, NIBA, Committee Hansard, Sydney, 14 October 2011, p. 2.
The Royal Commission commented that there can be no basis in principle or in practice to say that obliging an insurer to handle claims efficiently, honestly and fairly is to impose on the individual insurer, or the industry more generally, a burden it should not bear, leading it to recommend the removal of the claims handling exemption, discussed in 20.3 above.\textsuperscript{759}

We acknowledge the difficulties insurers face when large catastrophes occur. In particular, insurers face a challenging task in balancing the competing needs of making timely repairs and containing repair costs.

In some cases, deferring non-critical repairs or rebuilds could result in significant cost savings, however this should be at the discretion of the consumer. Recommendation 26 above would provide consumers with this opportunity by opting for a cash settlement now and then undertaking the repairs at a later time.

We also note that impending changes regarding the claims handling exemption will also help address issues with claims delays. As also noted in section 20.3 of this chapter, insurers will be required to comply with the general conduct obligations under section 912A of the Corporations Act which includes the obligation to do all things necessary to ensure it acts efficiently, honestly and fairly in relation to handling and settling an insurance claim. At a minimum this will require insurers (and their authorised representatives) to handle and settle an insurance claim in a timely way, without undue delay.

### 20.5 Complaints and dispute resolution

Local residents and property owners who participated in public consultation often spoke about the importance of an insurer’s customer service, reputation, claims handling and dispute resolution processes. They also spoke about their concerns with delays in resolving claims, in particular getting their damage assessed and waiting for repairs to be completed. At times, people were highly critical, with some claiming they (or others) had been bullied, intimidated and subjected to unethical practices by their insurer.

While our public consultation suggested that consumers generally had firm expectations of the standards they expected from insurers when it came to managing their claim, it did not demonstrate to us that local residents had a high level of awareness of their right to escalate a complaint to an external dispute resolution (EDR) service.

This process will be set out in a PDS, but we have concerns about how consumers are reminded about this process at other times. See recommendation 20.1 above.

**Insurers must have formal dispute resolution processes**

All insurers with an AFSL must have an Internal Dispute Resolution (IDR) process.\textsuperscript{760} The 2014 Code also sets out the IDR process that signatories to the Code must follow (detailed in the IDR section below) and should be consistent with the obligations contained in ASIC Guide 165.\textsuperscript{761} The Code is however voluntary and self-regulated by the industry. The Code Governance Committee (CGC) is the independent body that monitors and enforces insurers’ compliance with the Code. The CGC outsources its day-to-day Code compliance monitoring work to the AFCA Code Compliance and Monitoring team, which provides code monitoring, secretariat and administrative services. The Code is not currently enforceable by ASIC.

All insurers with an AFSL must also be a member of AFCA, which absorbed the functions of the former Financial Ombudsman Service as of 1 November 2018.\textsuperscript{762}

---

\textsuperscript{759} Financial Services Royal Commission, Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry Final Report, Volume 1, 1 February 2019, p. 309.

\textsuperscript{760} Under the Corporations Act 2001 (Cth), if you hold an AFSL you must have an internal dispute resolution system that meets the standards set out by ASIC (see ASIC Guide 165).

\textsuperscript{761} We note that ASIC Guide 165 applies to complaints received by financial firms before 5 October 2021, when Regulatory Guide 271 Internal dispute resolution comes into effect. ASIC Guide 165 will be withdrawn on 5 October 2022.

\textsuperscript{762} The requirement to be a member of an EDR scheme is also contained in the Corporations Act 2001 (Cth).
AFCA is the only approved EDR scheme for general insurers in Australia and is free for consumers to access. Consumers have a right to make a complaint with AFCA when they have been unable to successfully resolve a complaint with their insurer (detailed in the EDR section below). AFCA will consider the Code when making a decision, but will not necessarily be bound by the minimum standard set in the Code if they consider that it is fair in the all the circumstances for the insurer to have met a higher standard.  

### IDR—lodging a dispute with an insurer

The current 2014 Code commits insurers to resolve a dispute within 45 calendar days in total of a dispute being lodged.

The Code outlines the different protocols between IDR and EDR processes. Under the Code, an IDR is a two-stage process that requires insurers to:

- respond to a complaint within 15 business days of the date of receipt, provided they have all necessary information and have completed any investigation required
- keep the consumer informed about the progress at least every ten business days, unless the customer agrees otherwise
- respond to the complaint in writing, outlining:
  - decision in relation to the complaint
  - reasons for the decision
  - the consumer’s right to take the complaint to stage two of the Code IDR complaints process, if the decision at stage one does not resolve the complaint
  - if the consumer is still not satisfied with the decision after stage two, their right to take the complaint to AFCA, together with contact details and the timeframe within which the consumer must take the complaint to the AFCA
- advise the consumer where they are unable to provide a final decision within 45 days (this is the date the insurer first received the complaint and commenced stage one of the process), including the reasons for the delay and the consumers right to take the complaint to AFCA together with AFCA contact details.

Although the Code was amended in 2014 to incorporate additional requirements regarding the complaints process, there is still no explicit requirement in the Code for an insurer to notify a consumer of its IDR process when a claim is lodged. This is despite this limitation being observed several years earlier in the 2012 Disaster Events report.

We are concerned that this anomaly may contribute to a low level of consumer awareness about their options for escalating complaints.

The updated 2020 Code, due to be fully implement by insurers by 1 July 2021, has also not been updated to contain such an explicit requirement. We note that our recommendation 20.1 above would, if adopted, address this gap.

As part of the 2017 review of the Code, the ICA considered consumer submissions that the two-stage complaints system is too long, difficult and confusing (particularly for consumers experiencing vulnerability due to a claim), and many consumers are unaware of ‘what to do at a particular point’.  

The ICA considered concerns raised and recommendations to amend the 2014 Code and the complaints process.

In the updated 2020 Code, this two stage complaints system has been removed. We welcome this change to make the process simpler and easier to understand. Consistent with the current 2014 Code,
insurers are still required to make a decision about a customer’s complaint within 45 calendar days. If they cannot make a decision within this timeframe, then before this deadline passes they must tell the customer, in writing, the reasons for the delay and about their right to take their Complaint to AFCA, and its contact details. Insurers will continue to keep customers informed about the progress of their complaint at least every 10 business days, unless it is resolved earlier or if the customer agrees to a different timeframe.

**EDR—lodging a dispute with AFCA**

Feedback from our public consultation highlighted the anxiety and distress that consumers are experiencing and their inability to resolve situations of concern effectively with insurers. Notably absent was a demonstrated awareness of how to escalate their complaint to FOS (as it was at the time).

If a consumer cannot resolve their complaint with their insurer, the consumer can escalate the complaint to AFCA. There are some limits on the types of complaints that AFCA can consider and the compensation it can award:

- the dispute is a type it can consider (this includes home, contents and residential strata title insurance)
- the total amount of the insurance claim does not exceed the monetary limit of $1,000,000
- compensation awarded does not exceed the relevant compensation caps, per claim, of:
  - $250,000 in complaints against general insurance brokers and $500,000 in other complaints
  - $5,000 on any compensation for indirect financial loss or non-financial loss
- AFCA’s monetary limits and compensation caps apply per claim.

An important distinction is that AFCA takes the view that the expression ‘claim’ refers to the set of events and facts that together lead to the losses in a complaint submitted to AFCA and give the complainant the right to ask for a remedy and is not strictly related to the insurance definition of ‘claim’. If there are separate events or separate facts that lead to losses, the above limits and caps can be applied to each set of facts or ‘claims’ made by the consumer. For example, in the conduct of an insurance claim, a consumer may have separate issues that arise such as insufficient temporary accommodation costs, concerns of inadequate repairs, issues with the cash settlement amount etc., each of which can have a monetary limit of $1,000,000, and compensation cap of $500,000. We note that the monetary limits and compensation caps may be inadequate for some claims raised by consumers, particularly those that have experienced a total loss, and it will be important for these limits to be reviewed regularly. AFCA is required to adjust these limits on 1 January 2021 and every three years after that date, and ASIC may require AFCA to make additional changes to the limits.

If a complaint is not resolved by agreement, then AFCA may issue a determination which is binding on the insurer. This cannot be appealed but the consumer can choose whether to accept the determination.

**Compliance with the Code**

In 2018–19, Code subscribers self-reported 31,186 breaches, a 128% increase from 2017–18 where 13,576 breaches were reported. This follows the upward trend of breaches that has been occurring since 2014–15. The chart below shows the number of breaches by insurers over the past 5 years.

---

768 ibid, paragraph 146.
770 AFCA Complaint Resolution Scheme Rules, 25 April 2020, Rule D4.3.
As was the case in 2017–18, the majority of breaches in 2018–19 were related to the Code’s claims handling (section 7), with 15,649 breaches reported. This was followed by the Code’s complaints handling (section 10), which saw a total of 6,374 breaches reported.\footnote{ibid, p. 23.}

As outlined by the CGC in the Annual Report: General Insurance in Australia 2018–19 and current insights, such a substantial increase in breaches is concerning, as it means that consumers and small businesses are not receiving the protection afforded to them by the Code, and that subscribers’ breach prevention processes are inadequate. It was, however, suggested by the CGC that more breach reporting can be viewed as evidence that:

- subscribers are taking their auditing and monitoring functions more seriously
- their breach detection mechanisms are more robust and effective
- culturally, they are more open to reporting Code breaches to the Committee, investigating and learning from the root causes and putting in place measures to prevent a recurrence.\footnote{ibid, p. 5.}

Several consumer representative groups recommended, as part of their submissions to the interim report of the review of the Code that commenced in 2017, that the Code sanctions should be expanded and that the Code be submitted for approval by ASIC. ASIC advised in its submission that it encourages the ICA to have early and ongoing discussions with ASIC about code approval under RG 183.\footnote{ASIC submission to the General Insurance Code of Practice 2017 review, May 2017, p. 7.} ASIC considers it critical that an industry code lifts industry standards. The key areas it identified for review to address the minimum standards include:

- reporting of systemic Code breaches and serious misconduct to ASIC
- compliance monitoring and enforcement
- remediation and sanctions
- periodic independent review.\footnote{ibid.}

We note that it is not mandatory for the Code to be approved by ASIC. However, where approval by ASIC is sought and obtained, it is a signal to consumers that this is a code they can have confidence in. This is because the Code will need to meet key criteria before being considered for approval, which includes effective and independent code administration, being enforceable against subscribers, compliance is monitored and enforced and there are appropriate remedies and sanctions. This is
intended to raise standards and complement the legislative requirements that already set out how insurers (and their representatives) deal with consumers.

In the 2017 Review of the General Insurance Code of Practice Final Report (issued in 2018), the ICA introduced recommendations to clarify what remedies might be available to consumers, and also to confirm the intent to receive ASIC approval for the Code. The ICA noted that (in its view) current remedies available under the Code already meet RG 183, however to provide clarity it recommended that sanctions more directly mirror the wording in RG 183.

We note that while the ICA maintain these remedies are already available under the Code, as heard in the 2018 Royal Commission, the CGC has not imposed a single sanction on an insurer since 1 July 2014 despite over 700 reported breaches of the Code by member insurers. The Royal Commission also went so far as to making a recommendation that the ICA should amend section 13.11 of the General Insurance Code of Practice 2014 to empower (as the case requires) the Code Governance Committee to impose sanctions on a subscriber that has breached the Code (recommendation 4.10—Extension of the sanctions power).

We welcome the changes in the updated 2020 Code, which enhance and strengthen sanction powers for the CGC. These include:

- the ability to impose additional sanctions for Significant Breaches of the Code, such as compensating an individual for any direct financial loss, or damage, or paying a community benefit payment up to a maximum of $100,000 (the size of the community benefit payment must be in proportion to the insurers’ gross written premium and number of customers)
- reporting Significant Breaches or serious misconduct to ASIC.

These changes bring the Code closer to meeting the minimum standards in Regulatory Guide 183. The ICA has, however, yet to obtain ASIC approval for the Code.

The ICA indicated in a letter to the ACCC, that it remains its intention to work with ASIC to obtain ASIC approval of the Code. We would welcome any action by the ICA to seek ASIC approval for the 2020 Code under RG 183. This would increase confidence in the Code and ensure consumers know insurers can be held accountable for breaches. Importantly it will afford consumers greater protection and ensure they are made aware of, and provided access to dispute resolutions schemes, also providing insurers greater incentive to adhere to processes and minimise complaints.

**Recommendation 20.3**

**ASIC approval for the General Insurance Code of Practice**

The Insurance Council of Australia (ICA) should work with ASIC to obtain its approval for the General Insurance Code of Practice.

The ICA indicated in its Code of Practice Final Review Report that in order to meet the requirements for ASIC approval it would make a number of changes to the Code. The ICA should work with ASIC to ensure that these changes are sufficient to meet at least the minimum standards in Regulatory Guide 183 to obtain ASIC approval.

It is also important to outline the recommendations made by the Royal Commission regarding enforceable code provisions and the impending legislative changes which are provided in box 20.6 below.
Box 20.6: Royal Commission recommendations regarding enforceable code provisions

**Recommendation 1.15—Enforceable code provisions**

The law should be amended to provide:

- that ASIC’s power to approve codes of conduct extends to codes relating to all APRA-regulated institutions and Australian Credit Licence holders
- that industry codes of conduct approved by ASIC may include ‘enforceable code provisions’, which are provisions in respect of which a contravention will constitute a breach of the law
- that ASIC may take into consideration whether particular provisions of an industry code of conduct have been designated as ‘enforceable code provisions’ in determining whether to approve a code
- for remedies, modelled on those now set out in Part VI of the *Competition and Consumer Act 2010* (Cth), for breach of an ‘enforceable code provision’
- for the establishment and imposition of mandatory financial services industry codes.\(^{780}\)

**Recommendation 4.9—Enforceable code provisions**

As referred to in Recommendation 1.15, the law should be amended to provide for enforceable provisions of industry codes and for the establishment and imposition of mandatory industry codes. In respect of the Life Insurance Code of Practice, the Insurance in Superannuation Voluntary Code and the General Insurance Code of Practice, the Financial Services Council, the Insurance Council of Australia and ASIC should take all necessary steps, by 30 June 2021, to have the provisions of those codes that govern the terms of the contract made or to be made between the insurer and the policyholder designated as ‘enforceable code provisions’.

On 31 January 2020, the Government released for public consultation exposure draft legislation to: \(^{781}\)

- strengthen the existing codes regime in the Corporations Act and the *National Consumer Credit Protection Act 2009* (Cth) to enable ASIC to approve industry codes and to designate certain provisions as enforceable code provisions. A breach of an enforceable code provision may attract civil penalties
- introduce a framework for establishing mandatory codes of conduct for the financial services industry that will be implemented through regulations. A breach of a provision in a mandatory code of conduct may attract civil penalties and/or other administrative enforcement action from ASIC.

On 12 November 2020 the Government announced a package of legislation introduced into the Parliament, which includes these new laws. \(^{782}\)

These changes encourage approval of the Code by ASIC, as outlined in our recommendation above. They are also complementary to our recommendation in that they build upon the existing codes framework to allow ASIC greater power to also designate enforceable code provisions. This will further aid in raising standards and accountability and delivering benefits for consumers.

---

\(^{780}\) We note the Royal Commission outlined in its report that these provisions should be in a similar form to the provisions that exist in the *Competition and Consumer Act 2010* (Cth), including section 51AE of that Act.


21. Mitigation

Key points

- Mitigation of natural hazard risk is an important component of efforts to reduce insurance premiums. It is a complex issue that requires a collaborative approach between government, industry and individuals.

- In consultation we heard that local residents questioned whether mitigation work carried out on a property was recognised by insurers. Property owners also commented that the main barrier to mitigation was often the large upfront capital investment required with no guaranteed return from reduced premiums over the long term.

- Some insurers provide premium discounts in response to mitigation works at a household level. While these discounts can be substantial for a small number of consumers, they are relatively modest for most, particularly when compared to increases in base premiums over time.

- It appears that while insurers often assess the cyclone or flood risk at an address level, a number of insurers currently do not have measures in place which allow them to take private mitigation activity into account. As a result consumers who have undertaken works to improve the resilience of their property do not always see the benefit of this through lower insurance premiums. We have also seen that on occasions, mitigation work may only result in a one off discount. This limits incentives for consumers to take measures to reduce their risk, and means that some consumers are paying more for insurance than they need to.

- Community level mitigation by governments can significantly reduce risks (and premiums) in some cases. Insurers have a central role to play in identifying possible measures and consequential premium reductions for consumers.

- Stronger Australian building standards have proven to be one of the most effective mechanisms for improving resilience. Properties built to modern standards are generally at less risk of sustaining costly structural damage. However, there appears to be scope for further enhancements to building standards to better protect properties from natural hazards and further assist with the long term affordability of insurance.

This chapter provides an overview of the techniques used to mitigate some of the risk of damage from natural hazards. In particular, we consider the extent and transparency of premium reductions made by insurers in recognition of mitigation activity either at the household level or larger scale public mitigation works. The potential for larger-scale government funding of mitigation works as a measure to improve insurance affordability and availability is considered in chapter 8. We also explore the potential for more proactive industry involvement in proposing possible projects and providing more certainty over the size and longevity of premium reductions for prospective projects.

21.1 Why is mitigation important?

In the context of disaster risk management, we can describe resilience as:

> A system or community’s ability to anticipate, absorb, accommodate, or recover from the impacts of natural hazards in a timely and efficient manner, restoration of essential structures and functionality, and adapt to new circumstances.\(^{783}\)

At the forefront of resilience is risk mitigation. Risk mitigation continues to be put forward by industry as a means to achieve permanent reductions in insurance premiums by reducing both the frequency and severity of claims. In the view of Suncorp, any approach to reducing insurance premiums that does not

focus on mitigation will fail to reduce the cost of cyclone recovery and lock in a cycle of high premiums and government subsidies.\footnote{784}

Mitigation can be undertaken privately by individuals to protect their own properties\footnote{785} and publicly by governments to protect the interests of the broader community. For example, mitigation can be implemented through:

- adaptation measures: upgrading existing properties for greater physical resilience
- larger scale structural measures such as levees or dams
- land use planning to prevent development in high risk areas\footnote{786}
- building standards to ensure new properties have greater resilience\footnote{787}
- community education initiatives.

While our focus is on the insurance implications of mitigation activity, we recognise that mitigation can have wider benefits, in particular the avoidance of the non-financial costs of property damage resulting from natural hazards.

In its 2015 report, the Northern Australian Insurance Premiums Taskforce (NAIPT) found that mitigation to reduce the risk of damage from cyclones is the only way to reduce insurance premiums on a sustainable basis.\footnote{788} The Australian Government accepted the finding of the NAIPT (and on this basis, indicated it would not intervene directly in the insurance market).\footnote{789}

Some stakeholders have suggested governments have overinvested in post-disaster reconstruction and underinvested in mitigation that would have limited the impact of natural disasters. The Productivity Commission Report into \textit{Natural Disaster Funding Arrangements} also commented on the disproportionate spending between mitigation and post-disaster expenditure, citing mitigation spending remains unchanged at around 3\% of the post-disaster expenditure.\footnote{790} IAG proposed that this spending allocation should be rebalanced as a priority, with more investment in mitigation strategies to reduce the cost of reconstruction and safeguard communities.\footnote{791}

There can often be challenges for decision makers to find the right balance between hard mitigation (such as the construction of flood levees), and soft mitigation measures (such as education and risk awareness programs).

A number of insurers, insurance brokers and regional interest groups submitted that there is a role for governments to champion the shift in mindset towards investment in mitigation. The majority of insurers consider that investing in mitigation will build safer communities and a more sustainable future for northern Australia.

International research and initiatives also support the benefits of investing in natural hazard mitigation activities.

\begin{thebibliography}{99}
\footnotesize
\item Suncorp submission to the NAI issues paper, p. 31.
\item Some mitigation activities (such as strengthening a roof) may also provide a spill over benefit to nearby properties as they are less likely to be damaged by debris.
\item We examine the impact of building specification on premium pricing in chapter 13.
\item We consider how future insurance affordability and availability is affected by land use planning in chapter 12.
\end{thebibliography}
For example, the Sendai Framework is a voluntary, non-binding agreement developed by the United Nations and endorsed by Australia in 2015 which considers that the state has the primary role to reduce disaster risk but that responsibility should be shared with other stakeholders including local government, the private sector and other stakeholders. The framework shifts the focus to disaster risk management, rather than disaster management and provides four priorities for action:

- Priority 1: Understanding disaster risk.
- Priority 2: Strengthening disaster risk governance to manage disaster risk.
- Priority 3: Investing in disaster risk reduction for resilience.
- Priority 4: Enhancing disaster preparedness for effective response and to “Build Back Better” in recovery, rehabilitation and reconstruction.

To complement efforts made by governments, the insurance sector also has an important role to play in improving understanding of disaster risk and encouraging investments in building more resilient communities.

### 21.2 Mitigation at a household level

The 2013 report prepared for the Australia Business Roundtable for Disaster Resilience and Safer Communities, *Building Our Nation’s Resilience to Natural Disasters*, found that mitigation for existing developed areas is the hardest but most important area for resilience action. According to the report, changes to residential building codes (discussed in chapter 13) impact on about 1.3% of the housing stock each year, implying that it would take on average about 44 years for such changes to cover the entire housing stock nationally.

Communities in areas now known to be in cyclone or flood risk areas pose a range of challenges for property owners, residents, governments and insurers. Retrofitting properties to be fully compliant with current building standards is rarely practicable, so the focus must shift to options available to reduce risk of damage. In its submission to the inquiry, the ICA suggested there can be a lack of understanding regarding the options, costs, and benefits of undertaking household-level mitigation.

Suncorp’s ‘Built to last—A Protecting the north initiative’ report suggests significant economic benefits can be achieved from investing in simple cyclone resilience home retrofits. Some simple mitigation options can pay for themselves after just one cyclone event. In its submission to the inquiry, Suncorp claimed that improvements could save home owners and the economy up to $13 for every dollar invested, and significantly reduce the amount of damage caused to the retrofitted household, and neighbouring households, when a cyclone hits.

The ICA report ‘A third way: A proposal for cyclone mitigation assistance’, suggested that household-level mitigation measures that improve the cyclone compliance of a home would reduce premiums significantly.

A study conducted of insurance claims data by the Cyclone Testing Station at James Cook University identified that the most common causes of loss from Tropical Cyclone Yasi were roof damage, window

---


794 Insurance Council of Australia submission to the NAIi issues paper, p. 18.


796 Suncorp submission to the NAIi issues paper, p. 31.

damage and water ingress (in particular, wind-driven rain into properties through gaps and openings around windows and doors).\textsuperscript{798}

The three key mitigation options identified in the report as the most likely to prevent damage to households from cyclones are:

- structural roof upgrading, especially for homes constructed prior to 1980, or consideration of other practical retrofit options
- upgrades to opening protection around doors and windows for homes of all ages
- community preparedness and awareness campaign emphasising the importance of regular maintenance.

**Barriers to improving affordability through household level mitigation**

Improving the structural resilience of homes often makes financial sense, but there are still barriers to uptake.

The most significant barrier is the often large up front investment required compared to the long term payback period, in the form of lower insurance premiums. This was a key theme of concern raised by local property owners during our public consultation.

Even mitigation actions requiring modest up front costs with relatively short payback periods may be out of reach for low income consumers.

In its submission to the inquiry, Legal Aid Queensland similarly highlighted that for a private investment to be adopted by consumers it must have the practical effect of reducing insurance premiums. If it does not, it will not be successful.\textsuperscript{799}

Consumers contemplating private mitigation investments may be able to relatively easily gain a good understanding of the costs of the investment, by receiving quotes for the work and by a number of public documents giving indications of typical costs of mitigation efforts. However the benefits are less certain because:

- it is hard for consumers to forecast the size of the reduction in premium that would occur following the mitigation investment. There is limited public information on the typical size of premium decreases resulting from different kinds of mitigation efforts. Even if typical premium reductions for mitigation were better known, individual mitigation efforts may produce very different changes to premiums due to differences in the initial level of risk of the location and property characteristics and due to differences in premium reductions between insurers
- consumers may anticipate that it will be hard to verify that they ultimately continue to receive a premium reduction resulting from the mitigation. As discussed in chapter 4, the way insurers calculate premiums is complex and not visible to consumers. Premium changes from year to year can be significant, based not only on updated risk information but also premium adjustments. Consumers will typically have no way of knowing the precise reason or reasons for an overall premium increase. As such, it can be difficult for consumers to have confidence that discounts for mitigation activities undertaken are not being offset by future premium adjustments made to the pre-discount premium. This is particularly the case where other components of the premium are changing significantly
- consumers may anticipate that any mitigation efforts would not be taken into account or result in a reduced premium if they switched insurers. Uncertainty over the extent to which other insurers would recognise mitigation efforts could also reduce any future incentive for the consumer to consider switching insurers.


\textsuperscript{799} Legal Aid Queensland submission to the NAIi issues paper, p. 11.
Having undertaken mitigation works in response to an insurer’s discount program, a consumer may also be less inclined to consider competing insurers’ products in subsequent years due to uncertainty over whether the works would be adequately or easily recognised.

Taken together, this uncertainty over future benefits can make it harder for consumers to justify the often substantial up front costs of mitigation.

Further barriers may be particularly prevalent in the case of rental properties where there is an imbalance in the allocation of costs and benefits between the landlord and the tenant. That is, the landlord incurs the costs of investing in mitigation to improve the property, but some of the benefits may accrue to the tenant via improved protection of their contents. The degree to which these costs and benefits would be reflected in rents is not clear.

Similarly, where strata schemes are required to have building insurance, they face a potential coordination problem when it comes to mitigation efforts. While a mitigation effort may be worthwhile for the strata scheme as a whole, it may not suit all owners. Owners may benefit differently from any improvements to insurance coverage or have different willingness or ability to incur investment costs, so there may not be sufficient agreement between owners to proceed with some higher cost improvements that would require a contribution from all owners.

Body corporate management rules may also prevent property owners in certain complexes from improving the structural rigidity of their properties (such as, upgraded fences or over roof battens) for aesthetic reasons unless prior approval is granted at body corporate meetings. In its submission to the inquiry, Strata Community Association suggested that funding of significant mitigation work is generally cost prohibitive.  

The next sections report on measures that insurers and governments have taken to overcome these barriers, or could take in the future.

**How insurers recognise property level mitigation**

The ICA is of the view that industry has a role in promoting mitigation, but it should not be paying for mitigation. The role of insurers in the mitigation process is to price residual risk appropriately and fairly, using the best available data.

Insurers take different approaches to considering property level mitigation work to price their risks appropriately. Insurers generally assess a property’s resilience to natural hazards with reference to its wall and roof construction and the age of a building, when looking at risk rating factors. Some insurers promote mitigation discounts to property owners in northern Australia for undertaking certain cyclone mitigation activities. Unlike cyclone risk, insurers do not seem to promote explicit discounts for flood mitigation works undertaken by individual consumers. However some insurers do consider property characteristics that would reduce flood risk. Other insurers consider that there is insufficient data to accurately account for consumers’ mitigation activity.

Insurers’ documents suggested that many did not have the ability to easily take property level mitigation work into account. We have seen a number of examples of this in relation to the Queensland Government’s Household Resilience Program.

One insurer suggested it wanted to recognise improvements as part of the Queensland Household Resilience Program but noted that in providing quotes it does not ‘currently ask any questions specific to cyclone mitigation’ and that an ‘automated system solution was cost prohibitive to introduce.’ At the time it expected only a ‘limited number of households that will be eligible/apply for the grant’ and so instead it introduced ‘a manual webform solution that will enable any applicable discounts to be applied’. However, the insurer also did not appear to have systems in place to recognise mitigation works to improve a homeowner’s cyclone resilience outside of that program. The insurer commented in an internal brief for its contact centre team that it does not offer the discount to all cyclone

800 Strata Community Association submission to the NAII issues paper, p. 3.
801 Insurance Council of Australia submission to the NAII issues paper, p. 18.
802 The key features of this, and other government programs are set out in the section below ‘How government can support private mitigation’.
resilience mitigation works but for program related works it ‘can be confident that the measures have been installed correctly and that they are effective in reducing the risk of cyclone damage for a particular home.’

Another insurer noted that it felt that there is an ‘expectation that any of the building upgrades covered under the program will qualify the customer for a reduction on their home insurance premium’. In response, it appears it would review on a case by case basis any request from customers for a premium adjustment where they undertook mitigation works under the Household Resilience Program for a one off premium reduction only. This suggests that not all insurers recognise the ongoing risk reduction that can result from property level mitigation in the form of a reduction in the premium paid by customers.

In response to the Queensland program, another insurer considered that it needed to provide a message to the public that it ‘will give discounts [which] take into account improvements in cyclone resilience undertaken’ through the Program but expressed concerns about implementation. The insurer noted that ‘[reductions in] prices may need to be applied manually’ by staff due to a ‘big I.T. roadblock.’ The insurer later identified that staff would ‘identify the cyclone premium and manually adjust the total premium by the cyclone mitigation premium saving.’ Again this shows that insurers did not have systems in place to reduce premiums where property level mitigation had been undertaken.

Finally, another insurer noted that while it wanted to recognise the benefit of mitigation activity undertaken under the Queensland program to some extent, it did not have a systemised way of reflecting the reduced losses that would result from mitigation in the form of premium reductions. Further, it was difficult to ‘clean data’ about who had made improvements under the program.

The above examples illustrate some of the challenges that insurers face in incorporating property-level mitigation works into their current pricing systems. Generally, insurers will not inspect properties prior to providing a quote or in relation to mitigation measures, instead needing to rely on disclosure by consumers. The confidence insurers have in property specific information is considered in detail in chapter 13.

While there is a clear recognition from insurers of the need to support property-level mitigation schemes, the potential for premium reductions to be less than consumers expect is also recognised. The absence of robust systems to clearly adjust premiums in response to mitigation works undertaken will undermine the incentive for residents and governments to invest in mitigation.

We saw that some insurers did have the systems in place to consider such mitigation activity. Suncorp and RACQ both have programs in place to provide discounts for mitigation.

In its submission, Suncorp indicated it had provided 35,000 consumers with a ‘Cyclone Resilience Benefit’ on their insurance where their homes had its cyclone resilience improved. Suncorp said customers who received the discounts had typically upgraded roofs, covered windows, strengthened doors, and undertaken cyclone-season maintenance and preparation.

---

803 Suncorp submission to the NAII issues paper, p. 4.
804 Suncorp media release, Suncorp welcomes funding for Queensland cyclone resilience, 8 November 2017.
Box 21.1: Suncorp’s Cyclone Resilience Benefit

In 2016, Suncorp introduced its Cyclone Resilience Benefit which is designed to reward consumers in North Queensland with premium reductions of up to 20% for improving the cyclone resilience of their homes. Suncorp also provides a cyclone resilience benefit to eligible properties in the Northern Territory and north Western Australia.

For a property to be eligible to receive a Cyclone Resilience Benefit it must be north of the Tropic of Capricorn, within 100km from the coast line, and have made improvements to the buildings structural features or completed some form of cyclone preparation. The initiative rewards consumers that can demonstrate a property’s improved ability to withstand the impacts of cyclones.

A greater resilience rating should reflect a consumer’s improved risk profile and therefore, reduced premiums. Data obtained by the inquiry indicates that of all Cyclone Resilience Benefit recipients, over two thirds were still receiving a discount of less than 5%, and less than 3% are receiving a Cyclone Resilience Benefit of more than 15% on their premium. Suncorp advised that as of November 2019, 18% of the customers receiving the Cyclone Resilience Benefit have reported structural upgrades and were receiving an average reduction of $315.

In its submission to the inquiry, RACQ noted its support for mitigation works as ‘the foundation of any and all efforts to reduce insurance premiums on a sustainable basis’. RACQ submitted it recognises efforts and depending on the range of mitigation activities undertaken on the property, different discounts will be achievable. RACQ’s Cyclone Mitigation Discount scheme is discussed in box 21.2.

Box 21.2: RACQ’s Cyclone Mitigation Discount

In 2016, RACQ launched a scheme offering premium discounts of up to 20% to certain consumers in north Queensland under its Cyclone Mitigation Discount. Property owners in north Queensland may be eligible for RACQ insurance premium discounts if a home they own and/or live in has undergone work to reduce its risk of cyclone damage, for example:

- the installation of roofing options such as over batten systems and/or strapping
- the installation of opening protection
- a complete roof replacement or a complete retrofit - to the current building code.

The offer of a premium discount to eligible RACQ customers is subject to the structural changes having been undertaken and is at the discretion of RACQ Insurance.

In 2017–18, the average cyclone mitigation discount for eligible customers in Queensland was $350.

The above examples illustrate that, while premium reductions are possible in response to mitigation activities, the scale of the reductions for most customers can be modest. It is important to note that the expected average percentage reduction on post-1980 properties would generally be less than on pre-1980 properties which would generally be starting from a lower base of resilience, and could achieve a greater mitigation discount for structural improvements.

Recent insurer involvement in the Queensland Government’s household resilience program (detailed in chapter 8) has led to the development of off-system discount schemes to support the mitigation efforts made by home owners and provide commensurate reductions in premiums. One insurer has indicated this functionality has been embedded into their pricing engine and will be adopted as part of their policy and pricing system going forward.

806 RACQ submission to the NAII issues paper, p. 4.
807 Ibid.
From insurers’ documents, we also saw another insurer provided ‘discounts for policyholders that improve the cyclone resilience of their properties’ which included making sure that a ‘customer’s home is constructed to meet the current building code’. In this case, the insurer provided discounts to the cyclone component of the premium of up to 47.5% for its building policies.

In addition, while one of the insurers referenced above did not have systems in place at the time the Queensland program was introduced to recognise the risk reduction in its premiums, the insurer did intend to rectify this. The insurer noted that it intended to ‘continue offering a discount to eligible customers year-on-year’ but that the ‘structure, amount and process for applying the discount may vary as [they] build more sophisticated systems and tools in the future’.

**How insurers can better support private mitigation**

A very clear theme of our public consultation was that the insurance industry must stand by individuals who invest in mitigation and recognise the reduction of risk with a reduction in premiums. Individuals would be more encouraged to undertake mitigation if there was a clearer link between mitigation and lower insurance premiums. There were many local residents and land owners across Australia who did not feel this was happening in a way that they understood or expected.

The NAIPT also proposed that insurers could give greater recognition to post-construction mitigation work when calculating insurance premiums. The taskforce said policy holders are more likely to undertake mitigation if it directly linked to lower premiums.

Under both the RACQ and Suncorp mitigation discount programs noted above, there is a degree of transparency around what rating system is used to determine a property’s level of exposure. For example, the Suncorp online quoting system includes an integrated questionnaire to ascertain up front, the level of cyclone preparation and mitigation works a customer has undertaken whereas the RACQ approach requests their customers to call and check their eligibility and/or to submit a request for assessment through their website.

More broadly, there is value in signalling to consumers how they could go about further reducing their risk profile and achieve lower premiums. It is important for consumers to understand what discounts have been provided on a quote or renewal notice in recognition of property features that mitigate risk. For this information to be of most benefit to consumers, it should be provided by an insurer either on a renewal notice or a quote for new business. As well as improving transparency about how an insurance premium has been calculated, this would act as a prompt so that consumers could alert an insurer to other relevant property characteristics that could support a (further) reduction in a premium.

This requirement would necessarily require insurers to disclose, during their quoting process, an aspect of their pricing approach. This may in turn then be visible to competitors (either because the adjustment is built into publicly accessible quote engines, or because a consumer can share the breakdown of the mitigation specific information with a different prospective insurer).

We note that this is no different to the present situation where insurers already have visibility of the premium adjustments made by competitors for changes in sum insured or excess amounts. Greater transparency around premium pricing and what discounts have been provided could also address any misconceptions that the full discounts are not being passed on to consumers.

We do not consider that this recommendation would raise any meaningful concerns about price signaling between insurers. Different insurers will inevitably place different values on the value of mitigation measures which may be reflected to a greater or lesser extent in premium discounts. This measure would not enable insurers to obtain any more information about their competitors’ explicit mitigation discounts (or lack of discounts) than they already could obtain through shadow shopping and other competitor pricing analysis. This may be an alternative way for insurers to obtain similar information. Insurers that presently offer explicit mitigation discounts promote these extensively. If the effect of greater transparency of mitigation discounts for consumers is that insurers will be able to more easily compare their discounts (if any) with their competitors, we consider this will increase the likelihood that insurers provide and compete on explicit mitigation discounts for their customers in higher risk areas.
We consider consumers who have undertaken mitigation activities on their property should be able to know how (if at all) these mitigation initiatives have impacted their premium. This will provide consumers with the information required to consider if their mitigation efforts have been properly recognised, and if not, they can use this to compare between insurers. This may also lead to another level of competition between insurers, competing on mitigation discounts.

**Recommendation 21.1**

**Clearly stated mitigation discounts**

Insurers’ quotes and renewal notices for a property should be required to expressly show what discounts have been applied (if any) to reflect mitigation measures undertaken on that property.

This is important to help ensure premium adjustments are comparable between insurers and transparent for consumers. It also provides clarity to consumers and assists with evaluating investments in mitigation works.

The provision of specific and accurate risk information may improve property owners’ awareness of the risks faced, and encourage them to take appropriate action to manage these risks. Insurers are best-placed to know what potential improvements could be considered given a building’s current characteristics. More importantly, only an insurer will know the level of discount in premiums (if any) that it would apply in response. The renewal notice or quotation is the logical place for this information to be provided. For example, the statement could advise on what impact the adoption of common measures (e.g. installing cyclone shutters over windows or reinforcing a roof) would have on the property’s assessed risk and premium.

A consumer’s decision on whether or not to invest in a given mitigation measure would benefit from certainty regarding future premium reductions. However, given the complexity and uncertainty involved in insurers’ pricing decisions, it may not be practical to require estimated premium reduction for beyond the immediate insurance period.

Nevertheless, the estimate provided should be the insurer’s best estimate given the information that it has available about the consumer’s property characteristics and its own pricing methodology. Consumers would still be in a far better position to make an informed mitigation decision with this single estimate, than without.

There could be a very large number of mitigation options available to a consumer, some more feasible than others. Again, an insurer would be best placed to know which of the options available have the potential to result in meaningful premium reductions based on their own experience. The obligation to provide information on possible mitigation measures could be limited to those measures already undertaken by other customers of the insurer.

We consider that if insurers are compelled to clearly state actual mitigation discounts provided to consumers, as proposed in recommendation 21.1, then such information should easily be able to be passed onto consumers with properties sharing similar characteristics, to show what measures could be undertaken to potentially receive a similar discount.

Similar characteristics would include properties in a similar risk zone, which would ensure households receive relevant potential mitigation measures information. We also do not consider such information is likely to be construed as personal advice for the purposes of the financial product advice regime, as it is factual information based on the characteristics of like properties and is general in nature.\(^\text{808}\)

By requiring insurers to disclose what premium reductions may be available to consumers, this measure will give insurers an incentive to provide discounts to all customers who have undertaken such activity.

We understand that insurers providing this information may be required to include caveats that customers may not receive the same discount. However, we consider that an indication of potential

---

\(^{808}\) Chapter 18 on consumer information and choices considers the no advice / general advice models for insurance providers in more detail.
discounts may help assist customers in understanding the potential benefits of mitigation, and will encourage consumers to engage their insurers on what mitigation measures can help them for their situation. It will also place consumers in a better position than they are in now, where there is very little information on how mitigation activity will impact premiums.

Beyond this, we also encourage insurers to identify new, cost-effective or innovative approaches that will assist with premium reductions over the long term.

**Recommendation 21.2**

**Information on mitigation works that could reduce premiums**

*Insurers’ quotes and renewal notices for home insurance should be required to provide a schedule of mitigation measures which customers of the insurer have undertaken for properties with similar characteristics in order to improve their risk rating. This should include a guide to the premium reductions (in percentage terms) that consumers have received for undertaking these measures.*

This would provide (new or renewing) consumers with current information on a practical range of actions that could be undertaken to mitigate risk and show them what the benefit could be in terms of premium reductions. This will assist consumers to decide if the risk mitigation option is worth the upfront cost.

The Royal Commission into National Natural Disaster Arrangements report also discussed the need to encourage and incentivise people to take proportionate and cost-effective mitigation action to reduce risk. It considered how the insurance industry can encourage mitigation action to improve insurance affordability and recommended that the insurance industry work with governments and relevant stakeholders to produce and communicate to consumers clear guidance on individual-level natural hazard risk mitigation actions that insurers will recognise in setting insurance premiums. The Australian Government supported in principle this recommendation of the Royal Commission, and urged insurers to provide clear consumer guidance on actions to reduce natural hazard risk that will lower insurance premiums.

**How governments can support private mitigation**

Some advocates of disaster risk management have proposed a government-funded retrofit program targeting older housing would be one of the most effective ways to keep insurance affordable. For example, the Insurance Council of Australia commissioned research in 2015 that proposed a seven-year $361 million scheme to retrofit vulnerable buildings in Queensland. The ICA report, *A third way*, reported it would cost between $12,000 and $15,000 per house to fit roof over-battens, and proposed a role for a government subsidy.

The NAIPT considered a government subsidised mitigation scheme would likely be costly and risky, however, it was considered the only way to enable low income households to complete substantial mitigation work to their property. Allianz supports this notion but also concluded in its submission

---


that for many properties highly vulnerable to flood and cyclone, affordable home insurance could only be delivered through some form of subsidy arrangement which should not eliminate the price signals insurance can provide about risk.\textsuperscript{815}

The Royal Commission into National Natural Disaster Arrangements also determined that states, territories and local governments should consider if, where, and how it is appropriate for them to create incentives for natural disaster mitigation.\textsuperscript{816}

As of October 2017, the Australian Government had committed $30 million to the Queensland Government under the National Partnership Agreement on Natural Disaster Resilience to support local projects that build the disaster resilience of Queensland communities.\textsuperscript{817} The Australian Government had also contributed over $10.5 billion under the Natural Disaster Relief and Recovery Arrangements over the last decade to support recovery efforts nationally. Of this, more than $9 billion has been provided to Queensland.\textsuperscript{818}

Governments at all levels have a role to play in supporting mitigation action. A number of examples of government schemes and initiatives to improve the accessibility of mitigation to local residents and property owners are set out in boxes 21.3 to 21.7.

**Box 21.3: North Queensland Strata Title Inspection Program\textsuperscript{819, 820}**

In the 2014–15 Budget, the Australian Government allocated $12.5 million of funding to the Queensland Government for strata-title engineering assessments in north Queensland. The Budget Measures indicate the assessments will provide better information to insurers which will enable them to set premiums that more accurately reflect individual property risks.\textsuperscript{821} The voluntary assessments will also help residents of strata-title properties to be fully aware of the risks to their properties from natural disasters. This will provide bodies corporate with an opportunity to take necessary action to mitigate those risks and reduce their risk assessment by insurers, and ultimately reduce insurance premiums in some cases.
Box 21.4: Queensland Government’s Household Resilience Program

The Queensland Government Household Resilience Program provides a co-funding arrangement option to assist eligible home owners to improve the structural resilience of their pre-1984 homes against cyclones. Eligible home owners can apply to receive a state government grant to cover 75% of the cost of improvements (up to a maximum of $11,250 including GST). The program covers improvements options including roof replacement, roof tie-down systems, window protection such as cyclone shutters, replacement of garage doors and frames, tie downs of external structures, replacement of external hollow core doors and general property maintenance.

As at November 2019, the Queensland Government had awarded 1,748 grants with an average grant approval of $10,370, predominantly for roof replacements (approximately 82% of grants). The Queensland Government estimates that works completed under the program have resulted in an average insurance premium saving of 8.21%.

Information provided by the Queensland Government indicated that around 82% of applications were for roof replacements, almost 15% for window protection upgrades, and around 9% for door and garage door replacements. It was expected that insurance companies would take into account the improved resilience of these homes in calculating insurance premiums.

On 19 May 2020, the Queensland Government announced a $21.25 million expansion of the program. The Australian Government provided $10 million and the Queensland Government provided $11.25 million in additional funding.

Box 21.5: Cairns Regional Council’s Resilience scorecard project

The Cairns Regional Council submitted to the inquiry, their approach to community betterment was to run a resilience scorecard project in the region, which develops a benchmark of community and infrastructural resilience using a range of score criteria. One of these criteria includes encouraging the improvement of private and personal property risk mitigation for the region. The council noted that while there has been little engagement or support in these types of initiatives from insurers, the general resilience of the community has improved.

Box 21.6: Townsville Disaster Ready Day

Disaster Ready Day is a free community-awareness event for the public and new residents to Townsville. In previous years, this event was named ‘Cyclone Sunday’, as it coincided with the beginning of the cyclone season. However, it now has a widened focus to cover all natural disasters that affect the Townsville region. It provides residents the opportunity to talk directly with community and emergency organisations and get information available to assist residents prior to, during and after a cyclone.

---

Box 21.7: Brisbane City Council’s FloodWise

The Brisbane City Council\(^{828}\) has attempted to bridge the knowledge gap by providing ‘FloodWise’ Property Reports to assist residents with understanding the risk and type of flooding that may impact their property. The aim of this program is to enable residents to plan ahead and build habitable floor levels in accordance with Brisbane City Council’s requirements. The information contained in the report is based on flood studies and utilises the latest flood computer modelling. The reports show, for the purposes of information (but subject to caveats) a new 1% Annual Exceedance Probability (AEP) level from the Brisbane River Flood Study which is yet to be adopted in land use planning schemes.

The ICA\(^{829}\) and insurers\(^{830}\) have voiced their support for the North Queensland Strata Title Inspection Program (box 21.3), citing the James Cook University report into the resilience of strata properties, which recommended regular engineering based inspections be carried out on strata titles in order to identify issues of deterioration that could decrease building resilience in cyclones.\(^{831}\) This scheme is considered further in chapter 16.

As noted above, even mitigation actions with a relatively short payback period may be beyond the means of low income consumers. Obtaining personal finance to cover the upfront costs is unlikely to be feasible in most cases, particularly because of the uncertainty that will exist regarding premium reductions and premiums levels generally, beyond the current insurance period. Furthermore, even with specifically designed and prominent cyclone mitigation programs in place (by Suncorp and RACQ), most people participating could only get a discount of up to 10% or less.

As demonstrated above, there can be a role to play for governments in assisting consumers to overcome these impediments and make their homes more resilient. Chapter 4 considers the level and impact of taxes and duties on insurance premiums. As reported in chapter 3, the amount received through taxes and duties in northern Australia has grown in real terms from $48.5 million in 2007–08 to $158.5 million in 2018–19.

Such revenue, of course, is required to meet a range of governmental spending needs. However, as discussed in chapter 3, there may be merit in drawing on this windfall gain for measures to fund mitigation works, if stamp duties are maintained.

21.3 Public mitigation

In this section, we consider investments by governments in large-scale ‘hard’ mitigation projects, such as the installation of flood levees, well-maintained drainage networks, dredging of rivers and appropriate management of dams. The following section 21.4 further discusses the forward looking role for mitigation through the use of land use planning and building regulations.

The ICA in its submission to the Productivity Commission’s Inquiry on Natural Disaster Funding Arrangements, indicated that mitigation infrastructure should be managed as infrastructure by agencies with appropriate responsibilities, the required expertise and understanding of large-scale projects.

Suncorp in its submission noted it commissioned a cost-benefit analysis on key regional flood mitigation projects in 2014.\(^{832}\) It found two flood levees built in regional Queensland towns would deliver economic returns of around five times the cost (see below for further detail on the levees). Flood levees play an

---

831 Cyclone Testing Station, CTS report TS899 to the Insurance Council of Australia, Pilot study: Examination of strata building risks from cyclonic weather by utilizing policy claims data, June 2013, p. 33.
832 Suncorp submission to the NAII issues paper, p. 30.
important role in floodplain management. They also have the potential to impact on neighbouring properties, the community and the catchment as a whole.

But the reality of developing in high flood risk areas is, as Floodplain Management Australia noted in its submission, that levees can rarely, if ever, provide complete protection from all possible floods as there almost always remains some risk of a flood higher than the design height of the levee.\(^{833}\) This, and the potential for levee failures mean that properties “protected” by the levees cannot be considered completely flood-risk free, and insurance premiums are likely to contain some provision to cover this.

Price signals provided by insurance can be an effective way to convey information about risk and encourage risk management, including through public mitigation works. Some insurers have previously added temporary embargos to certain addresses in their underwriting systems, effectively ‘leaving the market’ for a period of time to reduce their exposure to losses in a high risk area.

An important example is Roma in Queensland (outside of northern Australia), where insurers’ decisions to place a temporary freeze on writing new business led the state and federal governments to commit funds to build a flood levee. The case of Roma is often used for comparison and as an example of flood mitigation works in other parts of Queensland, and this is presented as a case study in chapter 9.

**Barriers to improving affordability through public mitigation**

The Roma case study in chapter 9 is a stark example of strong insurer price signals (and even embargoes) signalling the assessed risk to properties in an area, with a clearly identified project to benefit a significant number of homeowners. However, in most scenarios, there can be significant barriers to public mitigation works that could bring about more affordable insurance premiums.

Both insurers and governments may have access to detailed, but different, hazard mapping, however only insurers will have a clear understanding of the potential impact of mitigation measures on insurance premiums. The likely effect on premiums will be a key consideration in any decision on whether or not to undertake a project.

As with household level mitigation, discussed above, the uncertainty regarding the magnitude and longevity of insurance premium reductions can make funding for the up front cost of such measures difficult to secure. This problem is further complicated in the case of public mitigation by the fact that the beneficiaries of the activity (affected property owners who may or may not be insured) are not also the decision makers. However such coordination problems are not unique to public mitigation.

Governments must routinely make decisions on what projects to fund from general revenues, through special levies or taxes or through user charges. Suncorp has raised the idea of utilising some of the funds from the Northern Australia Infrastructure Facility to invest in community resilience and mitigation infrastructure in high risk areas.\(^{834}\)

Regardless of the funding approaches that may be considered, public mitigation measures have very little chance of progressing in the absence of greater information disclosure by insurers regarding potential projects, and a solid ongoing commitment to meaningful premium reductions. To build confidence in public mitigation measures, insurers should be prepared to disclose the actual premium reductions that result from them.

Furthermore, to help assess the effectiveness of a funded project, and of public mitigation generally, insurers should also publicly report the actual premium reductions that result from the project. These could, and should, be compared to the premium reductions estimated by insurers prior to the project being undertaken. This transparency will also provide some check against the possibility of insurers failing to reduce premiums to fully reflect the lower assessed risk.

---

\(^{833}\) Floodplain Management Australia submission to the NAII issues paper, p. 2.

\(^{834}\) Suncorp submission to the NAII issues paper, *Protecting the north—An insurance affordability and cyclone resilience policy proposal*, p. 7.
**Recommendation 21.3**

*Public mitigation works and expected premium reductions*

The insurance industry should work with governments to identify specific public mitigation works (e.g., flood levees) that could be undertaken and insurers should provide estimates of the premium reductions they anticipate if the works proceed.

Actual premium reductions following such works should also be publicly reported by insurers, measured against their estimates.

### 21.4 Developing and building for resilience

Ideally, as a part of an effective policy and regulatory framework to lessen a community’s exposure to the risk of damage from natural hazards:

- governments would develop and enforce region-appropriate land planning guidelines
- developers of new properties would design and build consistent with construction codes, which must keep up with new knowledge, technology and the evolving environment.

**Effective land use planning and decision making**

Decisions about where people live, how land may be used and the types of buildings that can be constructed influence the exposure and vulnerability of the built environment to a range of natural hazards. The Productivity Commission regards land use planning as one of the most powerful policy levers available to governments to mitigate against the effects of natural hazards.\(^{835}\)

Land use planning can reduce the development of communities in areas where risk profiles have increased over time, or first settled when these risks were not present or fully understood.

In its submission to the inquiry, the Mackay Regional Council also acknowledges the role of local governments, in particular by:

- ensuring land use planning takes into account the natural hazard risks—this is done via the planning scheme and overlay codes (flood and coastal hazards)
- improving risk mitigation against natural hazards such as through levees
- providing accurate flood risk information to insurers for the purposes of informing pricing decisions and residents to better prepare them for surviving natural disasters.\(^{836}\)

We recognise the importance of developing and adopting effective land use planning arrangements integrated with natural disaster risk management for communities in northern Australia, and more broadly across all states and territories. Land use planning decisions can have long term impacts on communities and poor decisions are extremely difficult to reverse. It is imperative that communities are developed in areas that avoid excessive exposure to natural hazards, in particular flood risk. A failure to do so will only magnify present concerns around the affordability (and availability) of insurance in the future.

Any reluctance by local governments to sharing their data (such as, regional flood mapping and modelling of exposure to risk data) with insurers is understandable given insurers’ shift away from a pooled pricing model towards more granular address level pricing. Local governments would be aware that any new data supplied would feed into risk and pricing models which could lead to certain properties being reclassified as at a higher risk resulting in an increased premium.

---

836 Mackay Regional Council submission to the NAII issues paper, p. 3.
Equally, insurers may not be as forthcoming with the sharing of their data for various reasons. Historical claims data is extremely valuable to insurers as it allows them to more accurately determine the probability of a claim and set premiums accordingly (as noted in chapter 4).

As noted above in relation to public mitigation works, insurers are also best placed to estimate the cost of insuring properties in new developments. Such estimates, if they were sought by planning authorities, may complement their own hazard assessments by providing an insurance price signal regarding the desirability of development in particular areas.

We note consumers are likely to assume that new developments which have recently passed through a land use planning process have been designed in a way to limit exposure to natural hazard risks. For example, where a new development is developed in an area which has previously flooded, construction required such as raised floor levels, have been required.

We also note that purchase of home and contents insurance is unlikely to be a priority for most consumers when they are purchasing a property. It is generally only when a consumer comes to purchase or take ownership of a property that they consider the cost of insuring it.837

More generally, any specific known hazards to a property (for example if a property is in a location deemed to be at a high risk of flooding/storm surge) should be disclosed clearly by developers or real estate agents.

Chapter 14 considers in detail how insurance affordability and availability is affected by land use planning.

**Building regulations**

Building regulations play an important role in managing natural disaster risk. The structural design of buildings and the quality of building materials can influence the resilience of buildings to natural disasters. This, in turn, can lead to lower insurance premiums for these properties. We also recognise that more stringent building regulations can add to the cost of building (at least in the short term) and that this in turn can influence insurers’ pricing decisions (see chapter 4).

The Australian Building Codes Board (ABCB) is responsible for the development and maintenance of the National Construction Code (NCC), which comprises the Building Code of Australia (BCA) and the Plumbing Code of Australia. The ABCB is a joint initiative of the Commonwealth, state and territory governments. It was developed to address the inconsistencies in standards across regions by setting the minimum requirements for health and safety, amenity and accessibility, sustainability in the design, and construction and performance of new buildings throughout Australia.838

It is the role of each state and territory government to adopt and enforce the recommended standards. In Western Australia and Queensland, state and/or local governments can choose to impose additional building requirements applying to their region. In the Northern Territory, the territory government has the primary responsibility for implementing building and planning regulations.

The NCC is a uniform set of technical provisions for building works throughout Australia which also accounts for variations in climate and geographical conditions. The NCC is only changed where the ABCB is satisfied that the benefits exceed the cost. Changes to the NCC are subject to compliance with COAG best practice regulatory principles which includes a cost benefit analysis, preparation of a regulation impact statement to examine the full implications of any potential changes, and consideration of available data and research.

---

837 See Chapter 18 on consumer information and choices which includes a recommendation that insurance information be included in real estate vendor statements.

Box 21.8: Natural disaster events that have prompted action

In 1974, Cyclone Tracy caused 65 deaths and hundreds of millions of dollars of damage to 70% of Darwin’s homes (90% in some areas). It prompted regulatory change to improve the construction processes that attach the roof to the house, making houses more resistant to severe wind damage.

Analysis after cyclones Vance (1999), Larry (2006) and Yasi (2011) showed that the updated regulations have resulted in much less building damage and consequent loss of life. During Cyclone Yasi, for example, 12% of older homes suffered severe roof damage, but only 3% of newer homes.

Residents of Innisfail faced the full brunt of Cyclone Larry in 2006 with wind gusts of 240 kilometres an hour. The rebuild brought many damaged houses in the town up to modern, cyclone resilient standards. When Cyclone Yasi crossed the coast with similar wind speeds five years later, claims from Innisfail were half the cost of those nearby towns that did not experience the post-Cyclone Larry rebuild.

Australia has made significant advances in building regulations, in particular in the 1980s when the NCC was introduced. The framework has also been modernised to reflect new and updated understandings of how natural hazards may impact communities.

Compliance with the current code does not guarantee a house will avoid severe damage during a major weather event:

- While newer housing stock has greater resilience to environmental hazards, the prevalence of older housing can present a risk more generally. This is due to the potential for airborne debris from older housing to cause damage to neighbouring properties (regardless of age), for example an old style roof or other fixtures coming loose during a cyclone.

- Suncorp estimated there are up to 100,000 properties in north Queensland at risk of catastrophic cyclone damage as they were built before the current code, which introduced a higher cyclone building standard.\(^839\) Allianz shared a similar sentiment in its submission noting the efforts to retrofit improvements to bring older properties up to standard would be cost prohibitive and only modest savings would be achievable.\(^840\)

- In Queensland, the Cyclone Testing Station at James Cook University conducted a post-event analysis of the vulnerabilities of properties in north Queensland to natural hazards, in particular cyclones and storms. The analysis was informed by policy and claims data provided by Suncorp for this purpose of seeking solutions to decrease the risk from events associated with cyclones.\(^841\)

- One of the key findings showed that properties built in north Queensland prior to the introduction of modern building codes had a higher incidence of structural damage claims in the event of a cyclone.\(^842\) Claims stemmed from weaker points of properties such as large access doors (such as garage doors) not complying or reinforced to standard, lightweight sheds and fences.

- The research also noted that although many of the newer houses tended to have no structural damage from the wind, they encountered wind driven rain issues through weaknesses in the door and/or window surrounds or openings. Importantly, it was noted this issue was not unique to Queensland and similar issues have been observed in northern Western Australia following Cyclone Olwyn.

Suncorp also noted the Cyclone Testing Station research had demonstrated that there were significant gaps in the current building standards. For example, it was noted that there is no regulatory specification for fixings of flashing for minimising water ingress (primarily wind driven) around windows.

---

\(^839\) Suncorp submission to the NAII issues paper, p. 8.

\(^840\) Allianz submission to the NAII issues paper, p. 18.


\(^842\) ibid, p. 3.
and door surrounds.\textsuperscript{843} Water ingress was shown to be a major driver of insurance claims following weather events. Further to this, Suncorp also considers the requirements of the code are focused on keeping the underlying structural system intact, rather than protecting contents by, for example, keeping water out of the house.\textsuperscript{844}

Storm tide is potentially a very high risk in low lying coastal communities, especially those subject to the risk of cyclones. However, it would be very costly and restrictive to design and construct buildings to resist storm surge because of the significant water forces involved. Restricting development in high hazard areas via planning controls may provide a more realistic solution.

As noted above, weather events that do not affect the structural integrity of a home can nevertheless cause costly damage to a building’s interior and contents. The ABCB’s ongoing work programme provides an opportunity to consider options for strengthening the building code to reduce the risk of such damage (and resulting insurance claims) in new housing stock.

\textbf{Recommendation 21.4}

\textbf{Building code changes to better protect interiors and contents}

The Australian Building Codes Board expressly consider measures that better protect the interiors and contents of residential buildings from damage caused by natural hazard risk (such as, wind-driven water ingress around doors and windows during and following storms).

When assessing the costs and benefits of potential code amendments, the Australian Building Codes Board should also consider the potential longer term impacts on insurance premiums.

We consider the role of building specifications in further detail in chapter 13, including a recommendation to expand the remit of the ABCB (recommendation 13.1) to allow for better protection of interiors and contents.

\textsuperscript{843} Suncorp submission to the NAII issues paper, \textit{Protecting the north—An insurance affordability and cyclone resilience policy proposal}, p. 5.

\textsuperscript{844} Suncorp submission to the NAII issues paper, p. 19.
Appendix A: Notice from the Treasurer

COMMONWEALTH OF AUSTRALIA

COMPETITION AND CONSUMER ACT 2010

INQUIRY INTO THE SUPPLY OF INSURANCE IN NORTHERN AUSTRALIA

I, Scott Morrison, Treasurer, pursuant to subsection 95H(1) of the Competition and Consumer Act 2010, hereby require the Australian Competition and Consumer Commission to hold an inquiry into the supply, by persons in the insurance industry, of residential building, contents and strata insurance products ("insurance") to consumers in Northern Australia.

Matters to be considered by the inquiry shall include, but not be restricted to:

i. the pricing and availability of insurance to consumers in northern Australia;

ii. the key cost components of insurance pricing in northern Australia and how they have changed over time, particularly catastrophic risk;

iii. the terms and conditions on which insurance is supplied;

iv. the competitiveness of markets for insurance in northern Australia;

v. the existence and extent of any barriers to entry, expansion and/or exit in the supply of insurance in northern Australia;

vi. any impediments to consumer choice, including transaction costs, a lack of transparent information, or other factors;

vii. identifying any regulatory issues, or market participant behaviour or practices that may not be supporting the development of competitive markets for insurance in northern Australia; and

viii. the profitability of insurers through time and the extent to which profits are, or are expected to be commensurate with risk.

To inform its inquiry, the ACCC should monitor the activities of the insurance industry in northern Australia for a period of three years, commencing on 1 July 2017.

Northern Australia means the area defined has the meaning given in section 5 of the Northern Australia Infrastructure Facility Act 2016.

The ACCC should make use of publicly available information on the insurance industry, including that published by the Australian Prudential Regulation Authority, where appropriate.

This is not to be an inquiry in relation to supply by any particular person or persons.

The inquiry is to commence on 1 July 2017. The ACCC is to submit interim reports to me by 30 November 2018 and 30 November 2019. The inquiry is to be completed and a final report submitted to me by 30 November 2020.

DATED THIS 25th DAY OF MAY 2017

SCOTT MORRISON

Treasurer
Appendix B: Insurers’ brands and intermediaries

This appendix lists the brands and insurer intermediaries for the eight major insurers operating in northern Australia in 2018. Some of the listed brands and intermediaries do not operate in northern Australia, or only operate in parts of northern Australia.

Table B.1: Insurers’ brands and intermediaries for home and contents insurance products, 2018

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Brands</th>
<th>Intermediaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suncorp</td>
<td>AAMI</td>
<td>Australian Reliance Pty Ltd</td>
</tr>
<tr>
<td></td>
<td>APIA</td>
<td>Bank Of Queensland Limited</td>
</tr>
<tr>
<td></td>
<td>GIO</td>
<td>Bank SA Limited</td>
</tr>
<tr>
<td></td>
<td>Resilium</td>
<td>BDCU Limited</td>
</tr>
<tr>
<td></td>
<td>Shannons</td>
<td>Community And Public Sector Union (CPSU)</td>
</tr>
<tr>
<td></td>
<td>Suncorp</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Terri Scheer</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Vero</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>IMB Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Newcastle Permanent Building Society Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Steadfast Brecknock Insurance Brokers Pty Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>St George Bank Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yellow Brick Road Group Pty. Limited</td>
</tr>
<tr>
<td>Insurer</td>
<td>Brands</td>
<td>Intermediaries</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-------------------------</td>
<td>--------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Allianz</td>
<td>Allianz</td>
<td>Auswide Bank Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>West End Insurance Agencies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bananacoast Community Credit Union Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bank Australia Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Beyond Bank Australia</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Big Sky Building Society Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Central Coast Credit Union Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Central Murray Credit Union Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Credit Union Australia Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Credit Union SA Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Custom Equity Group Pty Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EECU Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fire Service Credit Union Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gavin Ford Mobiles and Insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>G&amp;C Mutual Bank Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Goulburn Murray Credit Union Cooperative Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Granard Investments Pty Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Greater Bank Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Heritage Bank Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Holiday Coast Credit Union Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HSBC Bank Australia Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hume Bank Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Insurance and Membership Services Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kellowade Pty Ltd ATF the Terry O’Rafferty Family Trust &amp; Mark Brennan Family Trust</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MAB Broker Services Pty Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Marsh &amp; McLennan Agency Pty Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>National Australia Financial Management Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>National Seniors Australia Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Newcastle Permanent Building Society Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Police Bank Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Police Credit Union Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Qudos Mutual Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Queensland Railways Institute Inc</td>
</tr>
<tr>
<td></td>
<td></td>
<td>REVA Insurance Pty Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Select Encompass Credit Union Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Southern Cross Credit Union Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Stephen Donnelly Financial Services Pty Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Russell Wayne Stitt</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Teachers Mutual Bank Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Home Builders Underwriting Agency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Westpac Banking Corporation</td>
</tr>
<tr>
<td>CommInsure</td>
<td>CommInsure</td>
<td>Insurance and Membership Services Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kellowade Pty Ltd ATF the Terry O’Rafferty Family Trust &amp; Mark Brennan Family Trust</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MAB Broker Services Pty Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Marsh &amp; McLennan Agency Pty Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>National Australia Financial Management Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>National Seniors Australia Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Newcastle Permanent Building Society Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Police Bank Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Police Credit Union Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Qudos Mutual Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Queensland Railways Institute Inc</td>
</tr>
<tr>
<td></td>
<td></td>
<td>REVA Insurance Pty Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Select Encompass Credit Union Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Southern Cross Credit Union Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Stephen Donnelly Financial Services Pty Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Russell Wayne Stitt</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Teachers Mutual Bank Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Home Builders Underwriting Agency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Westpac Banking Corporation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Zobel Insurance (SA) Pty Ltd</td>
</tr>
<tr>
<td>Bankwest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurer</td>
<td>Brands</td>
<td>Intermediaries</td>
</tr>
<tr>
<td>---------</td>
<td>---------</td>
<td>----------------</td>
</tr>
<tr>
<td>IAG</td>
<td>IAL (formerly Berkshire)</td>
<td>Australian Central Credit Union Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Australian Military Bank Ltd</td>
</tr>
<tr>
<td>CGU</td>
<td></td>
<td>Australian Post – Tel Institute Ltd</td>
</tr>
<tr>
<td>NRMA</td>
<td></td>
<td>B &amp; E Ltd</td>
</tr>
<tr>
<td>RACV</td>
<td></td>
<td>Bendigo and Adelaide Bank Limited</td>
</tr>
<tr>
<td>SGIC</td>
<td></td>
<td>BUPA HI Pty Limited</td>
</tr>
<tr>
<td>SGIO</td>
<td></td>
<td>Central West Credit Union Ltd</td>
</tr>
<tr>
<td>WFI</td>
<td></td>
<td>Coastline Credit Union Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Coles Insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Community First Credit Union Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Defence Bank Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gateway Bank Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>H.L.G.M. Mortgage Pty Ltd ATF</td>
</tr>
<tr>
<td></td>
<td></td>
<td>H.L.G.M. Mortgage Trust</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HBF Health Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Horizon Credit Union Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>La Trobe Financial Services Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Laboratories Credit Union Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LFI Group Pty Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Macquarie Credit Union Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>QBE</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Elders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ANZ</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Australian Life Insurance Distribution Pty Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Australian Unity Personal Financial Services Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Automobile Association Of Northern Territory Inc</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Community Alliance Credit Union Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DNISTER Ukrainian Credit Co-operative Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Family First Credit Union Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Firefighters and Affiliates Credit Co-operative Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>First Option Credit Union Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ford Co-operative Credit Society Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Heritage Isle Credit Union Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Homeloans Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hunter United Employees’ Credit Union Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>QBE</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Elders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ANZ</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Australian Life Insurance Distribution Pty Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Australian Unity Personal Financial Services Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Automobile Association Of Northern Territory Inc</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Community Alliance Credit Union Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DNISTER Ukrainian Credit Co-operative Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Family First Credit Union Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Firefighters and Affiliates Credit Co-operative Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>First Option Credit Union Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ford Co-operative Credit Society Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Homeloans Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hunter United Employees’ Credit Union Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>QBE</td>
</tr>
<tr>
<td>Insurer</td>
<td>Brands</td>
<td>Intermediaries</td>
</tr>
<tr>
<td>-----------</td>
<td>-----------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>Westpac</td>
<td>Westpac</td>
<td>Bank SA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>St George</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RAMS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bank of Melbourne</td>
</tr>
<tr>
<td>Youi</td>
<td>Youi</td>
<td></td>
</tr>
<tr>
<td>Insurer</td>
<td>Brands</td>
<td>Intermediaries</td>
</tr>
<tr>
<td>---------</td>
<td>--------</td>
<td>----------------</td>
</tr>
<tr>
<td>Suncorp</td>
<td>AAMI</td>
<td>Expert Strata Insurance</td>
</tr>
<tr>
<td></td>
<td>GIO</td>
<td>Longitude Insurance</td>
</tr>
<tr>
<td></td>
<td>Resilium</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Suncorp</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Vero</td>
<td></td>
</tr>
<tr>
<td>Allianz</td>
<td>TIO</td>
<td>Marsh &amp; McLennan Agency Pty Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strata Community Insurance Agencies Pty Ltd</td>
</tr>
<tr>
<td>IAG</td>
<td>CGU</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NRMA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>WFI</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SUU</td>
<td></td>
</tr>
<tr>
<td>QBE</td>
<td></td>
<td>CHU Underwriting Agencies Pty Ltd</td>
</tr>
<tr>
<td>RACQ</td>
<td></td>
<td>RACQ</td>
</tr>
</tbody>
</table>
Appendix C: Measures used in Australia and overseas

As part of our focus on measures to improve affordability and availability, we have reviewed a broad range of measures used in Australia and internationally to improve insurance affordability and availability. In undertaking this review we have considered a number of issues, such as the reasons measures were introduced, how they are structured and funded, how premiums are determined, and the effect that they have had on the market.

This section provides a summary of our review of the measures. Where aspects of these measures are particularly relevant, they have also been noted in the discussion in chapter 8.

Government reinsurance pools

There are many examples of governments establishing reinsurance pools to address issues with the availability of insurance. These pools are generally used to provide terrorism reinsurance, including in Australia, or catastrophe reinsurance, including in Japan, France, the United Kingdom, Taiwan and Indonesia.845

We have made a number of general observations drawn from our investigation of these schemes, set out below.

**Why have government reinsurance pools been introduced?**

A number of reinsurance pools have been introduced where there were significant supply issues in a private insurance market.

In Australia, the Australian Reinsurance Pool Corporation (ARPC) was established to address a lack of terrorism reinsurance. ARPC provides insurers with reinsurance for commercial property and associated business losses arising from a declared terrorist incident. It was established following the withdrawal of terrorism cover by insurers following the events of 11 September 2001, which resulted from reinsurers refusing to underwrite terrorism loss or damage to commercial property globally.

The government was concerned that a lack of comprehensive insurance cover for commercial property would lead to a reduction in financing and investment in the Australian property sector.846 A recent review of the scheme by Treasury in 2018 found that issues in the reinsurance market still existed, and without the ARPC there would likely be a market failure in the terrorism insurance market with wider economic implications. Treasury estimated global commercial market capacity available for Australian terrorism reinsurance is short of the level required to cover against large, but possible, terrorism incidents. It noted several reinsurers indicated they would find it difficult to participate in the Australian terrorism insurance market without a mechanism such as the ARPC.847

Flood Re (a flood reinsurance pool) was launched in 2016 to address what was seen as the beginning of a failure of the traditional home insurance market in the United Kingdom. Following a series of significant floods in the UK, homeowners of properties in high flood risk areas were finding it very difficult to obtain flood insurance, with it either being unavailable or unaffordable.848

The Indonesian Earthquake Reinsurance Pool began operations in 2003. It was established because of concerns that in trying to win market share insurers were setting premiums below the level needed

---


to cover earthquake claims. This would mean insurers would not be able to meet their obligations if there were a large earthquake in Indonesia, creating a prudential risk. To address this, participation in an Earthquake Reinsurance Pool (now called MAIPARK) was made compulsory for all general insurers and reinsurers. We note that in other jurisdictions such issues are generally addressed through prudential regulation.

Reinsurance pools are also often used where catastrophe risk is widespread, and these schemes are generally offered nationally. For example, the Japanese Earthquake Reinsurance Company (JER), Flood Re in the UK, the French government’s catastrophe reinsurer Caisse Centrale de Reassurance (CCR), the Taiwan Residential Earthquake Insurance Fund (TREIF) and ARPC all provide reinsurance nationally.

Wider coverage diversifies the risks covered by the pool, meaning there is a larger premium base that is not centred on only one high risk area. This, in turn, can improve the ability of the pool in negotiating retrocession (i.e. the purchase of reinsurance by a reinsurer) with global reinsurers.

**What are the key features of government reinsurance pools?**

An examination of international reinsurance pools shows that there are number of different ways in which they can be designed, including how they are structured, how they are funded and how they approach setting premiums and paying claims.

Most reinsurance pools do not set premiums at the true technical rate. Most charge a flat rate fee, receive a levy from all insurers, set risk based but discounted premiums, or a combination of these. For example, the CCR and TREIF charge a flat fee for all risks. Flood Re uses a combination of an industry-wide levy and premiums based on the value of the property insured. The JER uses risk based premiums, based on the location and construction of a building, but these are discounted from the true technical rate.

Reinsurance pools are often backed by some form of government guarantee which can be called on if claims exceed reserves (e.g. the ARPC, CCR, TREIF and JER). Where this is not the case, or where the guarantee is limited, the pool generally limits the claims it will pay in some way. For example, the JER is backed by a limited government guarantee, and caps amounts that can be paid for an individual claim and the total claims that will be paid from a single earthquake. The TREIF limits the sum that an individual property can be insured for to around AUD$70,000.

Some reinsurance pools contain measures which are intended to maintain risk signals. For example the JER includes some element of risk in premiums, and Flood Re only provides cover to buildings built before 2009 when flood insurance issues began to arise.

Some pools are seen as temporary solutions, and contain mechanisms to be phased out. For example, Flood Re has a limited life of 25 years. The ARPC is reviewed every three years, to see if it is still necessary to address issues in the reinsurance market. However, we are not aware of any examples of a reinsurance pool being wound up after it was established.

**Effectiveness of international reinsurance pools**

While they are fairly widely used, reinsurance pools have had mixed success internationally. The JER has a low uptake at about 30% of homeowners. In France the CCR does lead to lower premiums for consumers in high risk areas because of the use of flat rate premiums, but it has needed to call on its government guarantee because of insufficient reserves in the past. In 2000, the French government paid €450 million to the CCR to meet claims from windstorms.

---


851 As at September 2019.

852 Terrorism Insurance Act 2003 (Cth), s. 41,
In contrast, Flood Re is considered to be quite successful. It estimates that:

- it has improved the availability of insurance: Prior to its introduction only 9% of homes which had flooded could get more than two quotes. In 2018, 93% of homes that had flooded could get five or more quotes for insurance.
- it has improved affordability: Prior to Flood Re, excesses were ‘uncapped’ and premiums ‘prohibitively expensive’ for customers in high flood risk areas. In 2018, 80% of customers whose homes had previously flooded saw premium reductions of 50%.

However, despite improving affordability, flood premiums for high risks homes in the UK are still high, and Flood Re estimates that for homes covered under the scheme flood premiums can make up around two thirds of the total policy cost.

**Government insurers**

Internationally, government insurers have been implemented to provide catastrophe insurance at a lower price than would otherwise be available on the market or where some natural peril cover is not available to consumers. Where there have been issues around the availability of insurance, government insurers are often used as an insurer of last resort for those unable to obtain insurance from private insurers. Such government insurers are used in a number of jurisdictions, such as the US, Turkey, Spain and New Zealand. We have made a number of general observations about their operation, some of which are similar to those made regarding government reinsurance pools.

**Why have government insurers been introduced?**

As with reinsurance pools, government insurers have generally been introduced to address a significant issue in insurance markets, particularly where there are high levels of non-insurance.

For example, the National Flood Insurance Program (NFIP) in the US was established in 1968 as private insurers had essentially ceased to offer flood insurance in the US. The lack of flood cover was a significant issue in 1965, when Hurricane Betsy caused USD$10 billion in damage, which was mostly paid for by the federal government. Similarly, the California Earthquake Authority (CEA), which provides residential earthquake insurance, was introduced following the Northridge Earthquake in 1994, which caused USD$20 billion in property damage and led to most insurers ceasing to write new policies (as providing earthquake cover in California was mandatory).

The Turkish Catastrophe Insurance Pool (TCIP) was created in 2000 to address the low uptake of earthquake insurance following a major earthquake in 1999. At this time only 3% of households had earthquake insurance as households had traditionally relied on the government to finance the reconstruction of private property after major natural disasters.

New Zealand’s Earthquake Commission (EQC) was set up in 1945 following several destructive earthquakes throughout the 1930s which demonstrated New Zealand’s vulnerability to earthquakes and reinforced the need for a government entity to enable access to affordable insurance.

---


The Spanish insurer Consorcio de Compensación de Seguros (CCS) was established in 1954 to provide insurance where risks were not covered by insurers (or where insurers could not pay claims because of insolvency).  

What are the key features of government insurers?

The ways a government insurer is funded, sets premiums and limits claims are important considerations which can significantly impact their effectiveness.

Internationally, government insurers are generally funded by one or more of the following:

- premiums from consumers, often at a subsidised level. This is the main way that the NFIP is funded
- a flat fee charged to all home insurance customers—essentially a cross subsidy between high and low risk consumers. This is used by the EQC and the CCS
- an industry-wide levy charged on all insurers (based, for example on insurers’ market shares). This is used by the CEA, along with subsidised risk based premiums
- a government guarantee in the event that the government insurer’s funds are exhausted.

Government insurers can also limit the amount that can be paid out in response to an event, or a single claim. For example, if claims exceed the CEA’s reserve, all claims are reduced proportionally. The CEA has not yet exhausted its reserves, which are currently around USD$17 billion. The EQC in New Zealand also limits the amount that can be paid out in response to an earthquake claim of NZD$150,000 for home building insurance (amounts above this can be covered by the private market).

Effectiveness of government insurers

Where a government insurer provides unlimited cover at a subsidised level, and relies only on premium revenue, it has proved to be problematic, and very costly for governments. The main example of this is the NFIP, which has required additional funding on a number of occasions. Since 2004 the NFIP has borrowed USD$39.4 billion from the federal government to pay out claims. Schemes which have remained solvent, such as the CEA and EQC, receive additional funding from levies to provide subsidised premiums, and also limit the total amount that can be paid in claims.

The use of subsidised premiums can also distort price signals to consumers in high risk areas unless other action is taken. For example, the NFIP has paid USD$5.5 billion to repair and rebuild properties ‘multiple’ times. Development has continued in high risk areas, where people have used subsidised insurance under the program to cover their properties.

Finally, international experience shows that the availability of government insurance does not always significantly reduce noninsurance levels. For example, flood insurance levels are still low in high risk areas in the US, even though insurance is offered through the NFIP. For example, only 20% of properties affected by Hurricane Harvey had flood insurance.

Similarly, while most of California is at some risk of earthquake, the CEA indicated only 13% of Californians have earthquake insurance. In Turkey earthquake insurance rates have improved since the introduction of the TCIP, but they are still low. In 2011 (this is the best data currently available), 11 years after the TCIP’s introduction, only 23% of dwellings have earthquake insurance across Turkey, and only 40% of dwellings in high risk areas.

Direct subsidies, concessions or rebates

Subsidies are generally introduced to help make insurance premiums more affordable for consumers, and to encourage uptake of private insurance. In Australia, subsidies are currently available for private health insurance and medical indemnity insurance. Internationally, many countries provide subsidies for agriculture or crop insurance, including Canada and the US. Subsidies are generally used less to address general insurance affordability issues internationally than other measures.

Use of subsidies for insurance in Australia

The private health insurance rebate was introduced to encourage uptake of private health insurance and improve capacity in the public system. It is currently income tested, and can provide a rebate of up to 33% depending on a person’s age and income. In 2015, rebates and subsidies for privately insured persons under the Private Health Insurance Act 2007 resulted in $5.7 billion of Australian Government expenditure. After its introduction in 1999, Hospital Treatment coverage increased from approximately 31% to 46%, eventually peaking at approximately 47% in 2013. However, since the introduction of means testing for the rebate in 2012, coverage has declined to about 44% of the population.

The medical indemnity Premium Support Scheme (PSS) was introduced in 2004 to address a number of issues in the provision of medical indemnity insurance. First, there had been sustained large increases in premiums for medical indemnity cover. This risked doctors leaving the profession or ceasing to perform certain high risk procedures. There were also systemic issues affecting the medical indemnity sector. One of these was that uncertainty around large future claims was resulting in insurers either deciding not to enter the market or deciding to leave the market altogether, thereby reducing competition. Under the PSS, if a doctor’s gross medical indemnity costs exceed 7.5% of his or her gross private medical income, he or she will receive a government subsidy of 60% towards the cost of the premium beyond that threshold limit. In 1999–20, the Australian Government paid 1,060 medical practitioners $9.7 million in premium support.

A crop insurance subsidy has previously been considered in Australia, but no subsidy scheme has been implemented. In 2016, the New South Wales Government requested the Independent Pricing and Regulatory Tribunal of New South Wales (IPART) consider measures to increase the uptake of multi-peril crop insurance to reduce farmer reliance on government assistance. This included a proposal for a multi-peril crop insurance subsidy.

IPART found that a multi-peril crop insurance subsidy would materially increase the uptake of multi-peril crop insurance, and considered a temporary subsidy would help develop a commercial market for this product, which was still in its infancy, at a cost of around $7 million per year. However, the New South...
Wales Government decided to not introduce a multi-peril crop insurance subsidy, in part because of IPART’s finding there was unlikely to be an under-provision of multi-peril crop insurance as a result of a market failure, and instead abolished stamp duty on multi-peril crop insurance products.\(^{869}\)

**International insurance subsidy schemes**

Internationally, the use of subsidies in the insurance industry is mostly limited to health insurance and crop insurance.

In the US, the federal government subsidises private health insurance through the Affordable Care Act (ACA). Under the ACA, consumers on low incomes (up to approximately USD$48,000 per year for individuals) are only required to pay a small contribution towards their health insurance premiums, with a maximum contribution of 10% of the premium. This is to reduce monthly premiums and out-of-pocket costs in an effort to expand access to affordable health insurance for moderate and low income people.\(^{870}\) In 2018, subsidies under the ACA were estimated to cost about USD$55 billion for approximately nine million policies.\(^{871}\)

Outside of health insurance subsidies, crop insurance subsidies appear to be the most common form of insurance subsidy. The US government has subsidised crop insurance since 1938, when it was introduced to help the agricultural sector recover from the effects of the Great Depression and crop losses that had occurred around the same time. Currently, when a producer purchases a crop insurance policy, they select a level of coverage and pay a portion of the premium, which increases as the level of coverage rises. The federal government then pays the rest of the premium. Further, the government pays for the entirety of premiums related to catastrophe coverage for insurable crops.

In 2014, the US federal government paid, on average, 62% of a person’s crop insurance premium. The average annual federal cost is approximately USD$8 billion depending on weather conditions and crop prices. In 2013–14, there were 1.2 million crop insurance policies in effect and approximately 83% of US crop acreage was insured under the federal crop insurance program.\(^{872}\)

Premium subsidies are a common form of government intervention in crop insurance. A 2008 World Bank survey found that 63% of the 65 countries surveyed provided subsidies for multi-peril crop insurance premiums, generally to support the development and expansion of agricultural insurance by subsidising premiums.\(^{873}\)

This includes Canada, where the average government subsidy for crop insurance is 52% of the premium. Similar subsidy rates also occur in schemes implemented in Spain (66%), Italy (62%), Japan (51%) and Portugal (67%).

**Mitigation programs**

Mitigation programs have consistently been advocated by insurers and others in response to concerns about insurance affordability in northern Australia. We have already made a number of recommendations as part of the inquiry which are aimed at encouraging mitigation works, such


as insurers disclosing potential discounts for particular types of work, and insurers working with
government to identify potential public mitigation works.\textsuperscript{874}

\textbf{Australian mitigation programs}

There are currently a number of programs used in Australia to identify and fund mitigation works. While
undertaking natural disaster mitigation, resilience and recovery activities is primarily the responsibility
of state and territory governments, the Australian Government contributes funding through
various programs.

\textbf{National Partnership Agreement on Disaster Risk Reduction}

The main funding mechanism for mitigation initiatives is the National Partnership Agreement on
Disaster Risk Reduction (NPADRR), previously referred to as the National Partnership Agreement on
Natural Disaster Resilience (NPANDR). The NPANDR was established in 2009 to increase resilience to
natural disasters by funding mitigation projects. Overall, between 2009–10 and 2018–19, the Australian
Government agreed to provide approximately $255 million in funding to the NPANDR, which was to be
matched by state and territory governments.\textsuperscript{875}

In 2019–20, the Government, in conjunction with the state and territory governments, committed to
invest through the NPADRR at least $208.8 million over five years (or $41.76 million per year) to deliver
disaster risk reduction initiatives at all levels of government.\textsuperscript{876} We note this is a slight decrease from the
2015–16 and 2016–17 funding of $52.2 million per year, of which the Australian Government contributed
50%.\textsuperscript{877}

\textbf{Disaster Recovery Funding Arrangements}

The Australian Government also provides mitigation funding, in conjunction with the states and
territories, for areas affected by natural disasters through the Disaster Recovery Funding Arrangements
(DRFA).

Under DRFA, the Australian Government provides financial assistance to state and territory
governments in response to eligible natural disaster events to alleviate the financial burden on states
and territories. It also supports the provision of urgent financial assistance to disaster affected
communities.\textsuperscript{878}

The Betterment Program is funded under the DRFA. The key objective of this program is to provide
funding to enable state agencies and local governments to build back better, more resilient essential
public infrastructure following a natural disaster.\textsuperscript{879} Each round of funding under the Betterment
Program is provided once, in response to a disaster, and is not ongoing.

In March 2019, the federal and Queensland governments announced that they would provide
$100 million for parts of Queensland affected by the north Queensland monsoon trough that occurred
in January and February 2019 as part of the Betterment Program funded under the DRFA.\textsuperscript{880} Assets
that may be improved under the Betterment Program must:

\begin{enumerate}
\item See recommendations 21.1, 21.2 and 21.3.
\item This is based on the NPANDR agreement. Actual funding may be more than this. According to the Productivity
Commission, the Australian Government provided approximately $115 million in NPANDR funding from 2009–10 to 2012–
13, while the agreement required approximately $98 million in funding, to be matched by state and territory governments.
\item Previously, this was done through the Natural Disaster Relief and Recovery Arrangement, see Department of Home Affairs:
\end{enumerate}
be an essential public asset\textsuperscript{881}

- have sustained damage as a direct result of the natural disaster.

There is also an upper limit of $5 million per project (unless deemed an asset of national significance, such as a national highway).\textsuperscript{882}

**Emergency Response Fund**

On 12 December 2019, the Australian Government established a $3.978 billion Emergency Response Fund (ERF) to fund emergency response and recovery following natural disasters in Australia that have a significant or catastrophic impact, and to provide funding for resilience to future natural disasters. As of 30 June 2020, the fund has a balance of $4.130 billion.\textsuperscript{883}

In terms of disaster recovery, the ERF will provide an extra $150 million a year for disaster recovery, if the Australian Government determines existing recovery programs (such as the DRFA) are insufficient to meet the scale of the response required to a natural disaster.

The ERF will also make available $50 million a year for projects, services, technology or other matters related to these that is directed towards:

- resilience to a future natural disaster that could affect an area (whether directly or indirectly)
- preparedness for a future natural disaster that could affect an area (whether directly or indirectly)
- reduction of the risk of a future natural disaster that could affect an area (whether directly or indirectly), or
- the long-term sustainability of a community or communities in an area that is at risk of being affected (whether directly or indirectly) by a future natural disaster.

This is separate from the $150 million a year that is provided for use towards recovery from a natural disaster, or for post-disaster resilience in relation to an area that has been affected by a natural disaster. Particularly as an area does not need to have been impacted by a natural disaster to receive funding from this $50 million.

Payments from the ERF will be limited to $150 million and $50 million a year respectively, to protect the balance of the fund into the future. This limit will be reassessed within 10 years, to determine whether the fund could support a higher maximum annual disbursement.\textsuperscript{884}

**Other Australian programs**

State and territory governments have also funded mitigation schemes without Australian Government support.

In 2018, the Queensland Government committed $20 million of funding for lower income households to undertake cyclone mitigation measures such as roof tie-downs and window strengthening (the Household Resilience Program). This is offered in the form of grants of up to $11,250, covering up to 75% of the cost of roof tie-downs, roof replacement, tie down of external structures, or strengthening of windows and doors.\textsuperscript{885} In May 2020, the Household Resilience Program was extended with a further $21.25 million which $10 million was funded by the Australian Government.


\textsuperscript{882} Queensland Reconstruction Authority, 2019 Betterment Program Guidelines.


\textsuperscript{884} Emergency Response Fund Act 2019 (Cth).

Following the sale of the TIO in November 2014, the Northern Territory Government dedicated $200 million in funding towards community infrastructure, with $50 million of that dedicated to flood mitigation in Katherine, Rapid Creek and rural Darwin.\textsuperscript{886}

**International mitigation schemes**

In the US there are a number of programs to fund mitigation activity before and after natural disasters. The federal government provides funding to communities to help implement hazard mitigation measures following a disaster through the Hazard Mitigation Grant Program (HMGP). This includes flood diversion projects, structural retrofitting of existing buildings, and acquisition, structure demolition or relocation of flood-prone properties. Between 1989 and 2017, the federal government has provided USD$13.8 billion in HMGP funding.\textsuperscript{887} The amount of funding a state receives from the HMGP is generally 7.5 to 15% of the total amount that the Federal Emergency Management Agency (FEMA) provides in disaster assistance.\textsuperscript{888}

The US also provides funding for pre-disaster mitigation projects through its Pre-Disaster Mitigation Grant Program (PDM). The PDM is designed to assist areas in implementing a sustained pre-disaster natural hazard mitigation program to reduce overall risk to the population and structures from future hazard events, while also reducing reliance on federal funding in future disasters.\textsuperscript{888} In 2018, over USD$230 million in funding for mitigation activity was awarded via the PDM.\textsuperscript{889}

The US also separately operates a Flood Mitigation Assistance Program, which provided USD$160 million for eligible projects in 2019.\textsuperscript{890} This is in addition to funding provided to the US Army Corps of Engineers (totalling USD$1.8 billion in 2014) to undertake larger scale mitigation works, including dams and levees, as part of its Flood Risk Management Programs.\textsuperscript{891}

In France, the federal government operates a centralised scheme that is aimed at managing and mitigating flood risk through a National Flood Risk Management Strategy. The objectives of the program are to increase the safety of the population and stabilise and reduce the cost of flood damage. The program includes risk review of high flood risk areas, detailed mapping of flood hazards, and developing regional flood action plans. These plans include prevention, monitoring, education and mitigation measures. Between 2011 and 2017, funding of €658 million has been allocated to the program.\textsuperscript{892}

In 2015, the Canadian Government implemented a scheme to address increased peril risk resulting from climate change, spending CAD$200 million on mitigation planning, flood mapping and small scale...
mitigation measures to be cost-shared with the provinces and territories. In 2018, it allocated CAD$2 billion to large scale mitigation projects via the Disaster Mitigation and Adaptation Fund.

The UK government has also committed £2.5 billion to fund flood and coastal defence improvements, which it estimates could reduce flood risk by 5%.

A number of the government reinsurance pools and government insurers discussed above also contain measures which are intended to encourage mitigation activity. For example, in the US NFIP, increased cost of compliance (ICC) coverage is a mandatory part of flood insurance. In parts of the US, if a home or business is damaged by a flood, it may be required to meet certain building requirements to reduce future flood damage before a repair or rebuild. To help cover the costs of meeting those requirements, the NFIP provides mandatory ICC coverage with its flood insurance policies. While the CEA provide discounts where consumers have undertaken mitigating activity.

In the UK, part of Flood Re’s role is to manage the transition of the market to affordable flood pricing and encourage measures which improve the resilience of homes to flooding. For example, it is proposing to implement a ‘Build Back Better’ program, where claims payments would include an amount to repair homes in a more resistant way to reduce flood risk. It is also proposing to offer lower premiums on policies where property-level flood resilience measures have been installed.

Licence or authorisation conditions

We have not seen examples internationally of requirements on insurers to supply insurance to all property owners, or to hold a certain proportion of their business in particular areas or risk categories.

While in some jurisdictions, such as the US and France, it is compulsory for insurers to offer coverage for specified risks to all property owners, such risks are usually reinsured or insured by the government. However, we have not seen any examples where insurers are required to provide coverage across a geographic area, or required to provide coverage for specified perils to all property owners where there is no government insurance or reinsurance pool.

---


900 For example, earthquake insurance is compulsory to offer in California, while catastrophe insurance is compulsory to offer in France.
Appendix D: Small business insurance in Townsville and the February 2019 floods

Key points

- In parallel to our inquiry, the government requested we examine the extent of noninsurance for small businesses in the flood affected areas of Townsville and the reasons for this. We commissioned a survey of 75 small businesses within a 100 kilometre radius of Townsville to respond to the government’s request. The survey was conducted in June 2019, around 3 months after the flood event.

- The survey found 68% of small businesses in the Townsville area were impacted by the floods. The most common impact was business interruption, with 61% of those affected needing to close or reduce operation (28% closed for over 3 months). One-third (34%) of small businesses reported physical damage to their building or contents.

- For 31% of businesses, the estimated loss or damage was between $1,000 and $9,999, for 40% it was between $10,000 and $49,999. Nearly one-quarter (23%) estimated a loss of over $50,000.

- While 60% of affected small businesses with insurance reported having flood cover, only 44% with flood cover had business interruption insurance, though most of those affected by the floods were impacted in just this way. Almost two-thirds of businesses said they had never thought about having it.

- Almost half (48%) of businesses with insurance but without flood cover thought they had it. Of these, over half (60%) assumed that their broker had included it, and 40% said they had storm cover and ‘thought this would include floods from heavy rain.’ A few said they did not know businesses have to opt in for flood cover.

- Only 38% of affected small businesses with insurance claimed. Among those who claimed, 39% reported their claim was still being assessed at the time of the survey. The rest have been finalised, but with mixed success: 28% were fully successful, and 11% were partly successful but 17% were denied and 6% of claimants withdrew their claim.

- The floods had quite an impact on affected businesses, with 44% of affected businesses saying they found it very or extremely difficult to recover financially from their loss, regardless of whether they held insurance or not.

- Most small businesses (70%) had previously received some advice about their insurance, such as from a broker (58%) or customer service representative of the insurer (7%). Most of those who received advice accepted it (89%).

- Nearly one-third (32%) of small businesses said they felt extreme or a lot of financial pressure to pay their last premium. This pressure resulted in some businesses making changes to their insurance, including dropping flood cover, other optional extras and/or reducing their sum insured. Some negotiated a better quote or switched.

Following the February 2019 floods in the Townsville area, the government requested we assess the extent of non-insurance in the flood affected areas of the Townsville region, including households that have insurance but not flood cover. In parallel to our inquiry, the government also requested we examine the extent of non-insurance for small businesses in the affected areas of Townsville and the reasons for this. The letter we received setting out this direction is published on our website.901

To help us understand the extent of, and reasons for, non-insurance in northern Australia generally (chapter 12), we commissioned market research to complement the information that we were collecting from insurers. As part of the market research project, we included a spotlight survey of both residents and small businesses in the Townsville area.

---

While the survey included a focus on whether or not small businesses had flood cover, this does not reflect any view that all loss or damage experienced by a small business in the Townsville area was necessarily because of what an insurer would assess to be ‘flood’. For example, loss or damage could be due to heavy rain.

We also caution that, due to the variety of small businesses, the variety of ways in which they were affected by the floods, and the complex nature of small business insurance, the sample size becomes small for many indicators this survey considered. We have added a note to this effect under five of the tables presented below. We nonetheless consider the results provided very useful and relevant insight.

**Box D.1: About the Townsville small business survey**

We engaged Susan Bell Research to undertake a collection of surveys to inform our analysis of the extent of, and reasons for, non-insurance in northern Australia. The surveys were conducted in June 2019. The Townsville small business survey was specifically designed to focus on small businesses in the Townsville area at the time of the February 2019 floods. The sample was 76 small businesses operating within 100 kilometres of Townsville. The research defined small businesses as businesses with fewer than 20 employees. Manufacturers with up to 100 employees were also considered ‘small businesses’. The types of small business insurance that the research focused on were building, contents (including stock and equipment) and business interruption.

The findings of the research generally are discussed throughout chapter 12, however we present the findings of the survey of Townsville residents in chapter 9 along with our other case studies. Given the small business research was in parallel to our inquiry, and not a part of it, we separately present those findings here in appendix D. The methodology is explained in chapter 12 and summarised in box D.1 with respect to the small business sample. Given this request falls outside of the terms of reference for our inquiry, we could not require insurers to provide us with information about small business insurance policies.

We present this analysis in four sections:

- We begin with a discussion of the proportion of small businesses that were impacted by the floods, how they were affected and their estimated value of loss.
- Secondly, and in fulfilment of the government’s request, we look at the insurance held by small businesses in the Townsville area at the time of the floods, and the reasons why some businesses did not have common types of business insurance. We focus on building, contents and business interruption insurance. We assumed that a business needed to have at least one of these types of insurance to take out flood cover, and we look at flood cover in detail.
- Thirdly, we consider whether affected small businesses had lodged claims for damage, although we note the survey was conducted within three months of the event and some claims were still being assessed.
- Finally we also used the survey to find out how these small businesses purchased their insurance.

**How Townsville small businesses were impacted by the floods**

**Two in three small businesses were impacted by the floods**

Over two-thirds (68%) of respondents to the survey said their small business was affected by the flood event. In terms of specific types of damage:

- 61% lost income because they had to close or operate at reduced capacity
- 34% suffered losses or damage to physical property such as buildings or equipment.
Business interruption lasted from a few weeks to many months

As table D.1 shows, 28% of small businesses that experienced an interruption to their trade closed or reduced trading for less than 2 weeks, however 72% of affected businesses experienced a longer interruption. Around one-quarter (26%) expected their businesses to be interrupted well beyond June 2019, which is when the survey was undertaken.

### Table D.1: Townsville small businesses’ duration of business interruption

<table>
<thead>
<tr>
<th>Duration of closure/ reduction in trading</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interrupted for less than 2 weeks</td>
<td>28%</td>
</tr>
<tr>
<td>Interrupted for 2 to 4 weeks</td>
<td>17%</td>
</tr>
<tr>
<td>Interrupted for 1 to 3 months</td>
<td>28%</td>
</tr>
<tr>
<td>Interrupted for 3 to 6 months</td>
<td>2%</td>
</tr>
<tr>
<td>Will remain interrupted for further 3 to 6 months (approx. Sept. 2019 to Dec. 2019)</td>
<td>2%</td>
</tr>
<tr>
<td>Will remain interrupted for further 6 to 12 months (approx. Dec. 2019 to June 2020)</td>
<td>20%</td>
</tr>
<tr>
<td>Will remain interrupted for further 12 months or more (approx. June 2020 +)</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents who suffered business interruption (N=46).

Many businesses had more than one type of physical impact

Of the one-third of businesses that suffered physical damage, 65% had damage to equipment and tools and about half suffered damage to fixtures and fittings (54%) or had stock including perishable stock damaged (46%). Sixty-two per cent had minor damage to the building they operate their business from and 15% of businesses had major damage to their building.

Businesses’ losses ranged from under $1,000 to over $100,000

The most commonly reported range for estimated loss or damage was between $10,000 and $49,999 (40% of respondents), with another 31% estimating it to be between $1,000 and $9,999. At the higher end, 15% estimated between $50,000 and $99,999 with 8% estimating a loss of over $100,000.

More than four in 10 found it difficult to recover financially

We asked all flood-affected businesses how difficult it had been financially for them to recover from the loss or damage. The 44% who found it very or extremely difficult to recover had typically suffered losses they estimated to be at least $10,000.
To manage their financial recovery, affected businesses closed (60%), stayed open but at reduced capacity (33%), laid off staff (13%), took out a loan or increased debt (13%) or relocated their business (6%).

**Insurance held at the time of the floods**

Our survey focused on three common types of business insurance: building insurance (for businesses that had a building to insure), contents (stock and equipment) and business interruption insurance. For the purposes of the survey, we assumed that a business would have needed at least one of these types of insurance to have had the option of also taking out flood cover.

We then considered whether these businesses with some insurance had flood cover or not. This is not to say that we consider all loss and damage experienced by small businesses in the Townsville area was necessarily due to what an insurer would assess to be 'flood', however again, for the purposes of the survey, it was useful to consider whether affected businesses had flood cover or not.

**The incidence of insurance**

Given the wide variety of small businesses that we included in our survey, it was not possible for us to make an assessment about each business’ likely assets and the types of insurance that might best protect those assets.

The survey found that 9% of small businesses did not have any of the insurance types that we considered and a further 3% were unsure if they had business insurance. However half of these businesses that didn’t have, or were unsure about, any insurance held for their business were run from home, meaning they may not have been completely uninsured.

Nearly one-third of the surveyed businesses owned, or were paying off, a building. Two businesses (around 8%) did not have building insurance, and one did not have any insurance at all.

Thirteen per cent of small businesses did not have either contents insurance or business interruption insurance, but of those that had a building, most had that insured (75%).

**The types of insurance held by businesses that had some insurance**

We asked all small businesses in the Townsville area who had insurance whether they had flood cover at the time of the floods. If they did not, we asked why.
Of all the small businesses with insurance at the time of the floods, 63% had flood cover, 27% did not and 10% did not know. Of the 27% of small businesses with insurance but not flood cover, over half (52%) said they knew they did not have it while 48% said they had thought they did.

Of those who thought they had flood cover but found they didn’t, most assumed that their broker had included it. Multiple responses were allowed to this question so some respondents indicated that there were a number of reasons why they thought that they had flood cover but didn’t. This also explains why the total exceeds 100%. When a respondent selected two options, they always selected both ‘I assumed my broker included flood insurance’ and ‘I had storm cover and I thought this would include floods from heavy rain’.

Table D.2: Townsville small businesses’ reasons why they thought they had flood cover when they didn’t

<table>
<thead>
<tr>
<th>Reasons why thought had flood cover</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>I assumed my broker included flood insurance</td>
<td>60%</td>
</tr>
<tr>
<td>I had storm cover and I just thought this would include floods from heavy rain</td>
<td>40%</td>
</tr>
<tr>
<td>I did not know that you have to opt-in for flood insurance</td>
<td>10%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019
Base: Respondents with insurance but not covered for flood who thought they were covered for flood
* Caution, small base

Some small businesses had insurance but chose not to have flood cover

Of the small businesses with insurance but not flood cover, most explained they believed their business was not in a flood zone (67%), while another 20% chose not to have it because the business did not operate out of the ground floor or basement. More than one-quarter (27%) said it was too expensive.

Table D.3: Townsville small businesses’ reasons why they chose not to have flood cover

<table>
<thead>
<tr>
<th>Reasons why chose not to have flood cover</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>I chose not to have flood cover because our building is not in a flood zone</td>
<td>67%</td>
</tr>
<tr>
<td>I would have liked to have flood cover but it was too expensive</td>
<td>27%</td>
</tr>
<tr>
<td>I chose not to have flood cover because our business does not operate out of the ground floor or basement of a building</td>
<td>20%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents with insurance but not flood cover who were aware they did not have flood cover.

Most small businesses with flood cover had contents insurance, but less than half had business interruption insurance

Table D.4 below describes the insurances held by small businesses that said they did have flood cover. The first part describes the cover held by small businesses that owned their building (and therefore had an insurable building) and the second part describes businesses that did not own a building. Overall, most (93%) small businesses with insurance had contents insurance, but only 44% had business interruption insurance.
### Table D.4: Townsville small businesses’ types of insurance products held among those with flood cover

<table>
<thead>
<tr>
<th>Businesses with a building to insure</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building, contents and business interruption</td>
<td>11%</td>
</tr>
<tr>
<td>Building and contents</td>
<td>21%</td>
</tr>
<tr>
<td>Building and business interruption</td>
<td>0%</td>
</tr>
<tr>
<td>Building only</td>
<td>5%</td>
</tr>
<tr>
<td>Contents and business interruption only</td>
<td>0%</td>
</tr>
<tr>
<td>Contents only</td>
<td>28%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Businesses without a building to insure</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contents and business interruption</td>
<td>33%</td>
</tr>
<tr>
<td>Contents</td>
<td>0%</td>
</tr>
<tr>
<td>Business interruption</td>
<td>0%</td>
</tr>
<tr>
<td>Unclear</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents with building and/or contents and/or business interruption insurance and flood cover (N=43).

### Businesses without business interruption cover had either never considered it, or chosen not to have it because of cost

As we have seen, much of the impact of the floods was to cause businesses to close or reduce trading. Most of those who did not have *business interruption cover* had never had it. Only 7% of businesses with no business interruption insurance had ever had it, and 64% had never thought about having it.

Of the 13 businesses that did not have contents insurance, only a small proportion (23%) had ever had it. About half had thought about it but decided not to.

### Table D.5: Townsville small businesses’ insurance considerations in the past

<table>
<thead>
<tr>
<th>Had cover/considered cover</th>
<th>Building insurance</th>
<th>Stock and equipment (contents)</th>
<th>Business interruption insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>2*</td>
<td>13*</td>
<td>45</td>
</tr>
<tr>
<td>I had this cover in the past</td>
<td>50%</td>
<td>23%</td>
<td>7%</td>
</tr>
<tr>
<td>I thought about but decided not to</td>
<td>50%</td>
<td>54%</td>
<td>29%</td>
</tr>
<tr>
<td>I never thought about having</td>
<td>0%</td>
<td>46%</td>
<td>64%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents without each type of insurance.
* Caution, small base

Table D.6 summarises the reasons why businesses that had considered having a particular type of insurance decided against it. Cost was the explanation offered by the majority of small businesses, either they could not justify the cost or could not afford the premiums (or both). Almost one-third thought they could manage without contents insurance (29%) and business interruption insurance (31%).
Table D.6: Townsville small businesses' reasons not to have insurance

<table>
<thead>
<tr>
<th>Reasons decided against</th>
<th>Building insurance</th>
<th>Stock and equipment (contents)</th>
<th>Business interruption insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>1*</td>
<td>7*</td>
<td>13*</td>
</tr>
<tr>
<td>Reason decided not to: I couldn’t afford premiums</td>
<td>100%</td>
<td>14%</td>
<td>38%</td>
</tr>
<tr>
<td>Reason decided not to: I could not justify the cost</td>
<td>100%</td>
<td>57%</td>
<td>54%</td>
</tr>
<tr>
<td>Reason decided not to: I thought we could manage</td>
<td>NA</td>
<td>29%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents without each type of insurance.
* Caution, small base

Claims by affected small businesses with insurance

The incidence of claiming among flood-affected businesses with insurance

Of flood-affected small businesses with insurance, 60% said they had flood cover.

As shown in table D.7 below, only 38% of affected businesses who had some insurance made a claim, meaning almost two thirds (62%) did not. Some explanations offered by businesses for not making a claim are discussed later in this section.

In absolute terms, a higher number of small businesses with flood cover in our survey made a claim compared with the number without flood cover. However looking at the incidence of claiming, table D.7 shows that small businesses with some insurance but without flood cover, or unsure if they have flood cover, still made claims.

The fact that some businesses without flood cover made claims illustrates a point we made earlier that not all damage or loss experienced by a business will necessarily be caused by what an insurer assesses to be 'flood'. For example, heavy rain could cause water ingress through ceilings and windows.

Table D.7: Townsville small businesses' incidence of claiming

<table>
<thead>
<tr>
<th>Insured businesses affected by flood</th>
<th>Affected businesses who knew they had flood cover</th>
<th>Affected businesses who knew they did not have flood cover</th>
<th>Affected businesses who were unsure if they had flood cover</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>28</td>
<td>15</td>
<td>4*</td>
<td>47</td>
</tr>
<tr>
<td>I claimed</td>
<td>32%</td>
<td>40%</td>
<td>75%</td>
<td>38%</td>
</tr>
<tr>
<td>I did not claim</td>
<td>68%</td>
<td>60%</td>
<td>25%</td>
<td>62%</td>
</tr>
<tr>
<td>Total</td>
<td>60%</td>
<td>32%</td>
<td>9%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents affected by the flood event that had some insurance (N=47).
* Caution, small base

Of the impacted businesses with flood cover, the value of the losses and the type of policy they had affected whether they made a claim. That is, the less the business had lost, the less likely they were to claim. Around one-quarter (26%) of businesses with insurance and loss or damage under $50,000 claimed, compared with 60% of businesses with insurance with loss or damage over $50,000.

Outcome of claims

Most (78%) small businesses claimed for the full extent of the loss they experienced. Among those who claimed, 39% reported their claim was still being assessed at the time of the survey (June 2019). The rest had been finalised, but with mixed success:
28% of all claims were 100% successful (the business just had to pay the excess)  
17% were denied by the insurer  
11% were partly successful in that the claimant received some payment  
6% of claimants withdrew their claim.

Table D.8 below shows these figures and also shows the results for businesses with flood cover and businesses without, noting that the sample size does become small for each group. It shows that the businesses with flood cover had variable results, with some withdrawing claims, some having them denied, and others partly or completely successful. Two businesses who were unsure if they had flood cover or not had completely successful claims. No business in our sample who knew they didn’t have flood cover reported a successful claim, however most were still being assessed.

### Table D.8: Townsville small businesses’ outcome of claims (by flood cover or not)

<table>
<thead>
<tr>
<th>Had flood cover</th>
<th>Did not have flood cover</th>
<th>Unsure if had flood cover</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>N=</td>
<td>9*</td>
<td>6*</td>
<td>3*</td>
</tr>
<tr>
<td>100% successful (the insurer has, or will, pay it in full)</td>
<td>33%</td>
<td>0%</td>
<td>66%</td>
</tr>
<tr>
<td>Partly successful (the insurer has, or will, pay part of it)</td>
<td>22%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Withdrawn (did not proceed with the claim)</td>
<td>11%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>The claim is still being assessed</td>
<td>22%</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>Denied (the insurer did not pay any of it)</td>
<td>11%</td>
<td>33%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.  
Base: Respondents affected by the flood event that had some insurance and made a claim (N=18).  
* Caution small base

**Why businesses with insurance did not claim**

Some affected businesses with insurance did not claim at all and some did not claim for the full loss they experienced.

The businesses that did not claim at all explained that:

- their loss was relatively small and it was not worthwhile to claim:
  
  ‘It just wasn’t worth it with the small amount that we would have claimed - we were not impacted enough to make it worth it.’

- they had some insurance, but not for the type of loss or damage they experienced:

  ‘I was disappointed that they did not deem loss of income without us having damage to stock or building—they told me because of this it was not covered even though we could not open and no one was shopping and no staff could get here.’

  ‘I didn’t have any building damage I just couldn’t drive my trucks because of the water.’

  ‘My property was not affected; our clients were affected and this in turn impacted upon our business income dramatically.’

The businesses that did not claim for the whole loss explained:

‘I can only claim for the days my business ... was closed down. The insurance company won’t pay for the downturn for the period after the flood.’

‘We couldn’t claim for loss of income because we weren’t closed for more than 4 days, which is the threshold.’
Small businesses’ experiences buying insurance

The survey also collected information about how Townsville small businesses bought insurance, including whether they sought advice, whether they regularly reviewed their policy and whether paying their premium put them under financial pressure.

Most insured businesses had reviewed or received advice about their insurance in the last year

Most (84%) businesses with insurance had reviewed or received advice about their insurance at their last renewal, although 6% said they had never checked it.

Table D.9: Townsville small businesses’ most recent review of insurance

<table>
<thead>
<tr>
<th>When most recently reviewed /got advice</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>At the last renewal in 2018–19</td>
<td>84%</td>
</tr>
<tr>
<td>About 2 years ago</td>
<td>4%</td>
</tr>
<tr>
<td>About 3 to 4 years ago</td>
<td>3%</td>
</tr>
<tr>
<td>About 5 to 9 years ago</td>
<td>3%</td>
</tr>
<tr>
<td>About 10 years ago</td>
<td>0%</td>
</tr>
<tr>
<td>I have never checked or reviewed it</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents with some insurance (N= 67).

Many had bought insurance through a broker and/or consulted brokers

Three in four (73%) businesses with insurance had bought their insurance through a broker, while 19% had arranged it directly with an insurer.

Seventy per cent had previously received some form of advice about the cover needed. Most (58%) had received advice from an insurance broker, 7% discussed it with a customer service representative from the insurer while others such as external accountants also provided advice. Nearly one-third (30%) had not sought advice.

When asked what they had sought advice or inquired about, 81% had asked about the types of insurance, 79% had asked about the sum insured (79%) and 64% the types of risks to cover for (this was a multiple response question). The majority (89%) of businesses who received advice accepted it.

Half of the businesses surveyed felt financial pressure when paying their renewal

Half (51%) of businesses with insurance felt some, a lot of, or extreme financial pressure when paying their recent annual premium. Nearly one-third (32%) felt extreme or a lot of pressure. Around 30% reported that they felt no financial pressure.
Figure D.2: Townsville small businesses’ rating of financial pressure when paying most recent premium

<table>
<thead>
<tr>
<th>Financial Pressure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extreme financial pressure</td>
<td>5%</td>
</tr>
<tr>
<td>A lot of financial pressure</td>
<td>27%</td>
</tr>
<tr>
<td>Some financial pressure</td>
<td>19%</td>
</tr>
<tr>
<td>A little financial pressure</td>
<td>19%</td>
</tr>
<tr>
<td>No financial pressure</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents with some insurance (N=67).

Businesses who felt some, a lot of, or extreme pressure were asked what they did about it. Their responses are set out below.

Table D.10: Townsville small businesses’ actions in response to experiencing pressure paying a premium

<table>
<thead>
<tr>
<th>Actions (in rank order of mentions)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I didn’t do anything (I just paid it)</td>
<td>35%</td>
</tr>
<tr>
<td>I contacted my insurer to ask them to reduce the quote</td>
<td>32%</td>
</tr>
<tr>
<td>I arranged to pay monthly instead of yearly</td>
<td>24%</td>
</tr>
<tr>
<td>I got other quotes but stayed with current insurer</td>
<td>21%</td>
</tr>
<tr>
<td>I switched to an insurer who gave me a cheaper quote</td>
<td>15%</td>
</tr>
<tr>
<td>I increased the excess</td>
<td>9%</td>
</tr>
<tr>
<td>I removed some other optional extras from my policy</td>
<td>6%</td>
</tr>
<tr>
<td>I engaged a broker for the first time to help me find a cheaper policy</td>
<td>6%</td>
</tr>
<tr>
<td>I removed flood cover from my policy</td>
<td>6%</td>
</tr>
<tr>
<td>I reduced the sum insured of my building and/or equipment etc.</td>
<td>6%</td>
</tr>
<tr>
<td>I switched to a different broker who could get me a cheaper policy</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: ACCC commissioned research, June 2019.
Base: Respondents experiencing some, a lot of, or extreme pressure when paying a premium (N=34).
# Glossary of abbreviations and acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAL</td>
<td>Annual average loss</td>
</tr>
<tr>
<td>AASB</td>
<td>Australian Accounting Standards Board</td>
</tr>
<tr>
<td>ABCB</td>
<td>Australian Building Codes Board</td>
</tr>
<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
</tr>
<tr>
<td>ACA</td>
<td>Affordable Care Act</td>
</tr>
<tr>
<td>ACCC</td>
<td>Australian Competition and Consumer Commission</td>
</tr>
<tr>
<td>AFCA</td>
<td>Australian Financial Complaints Authority</td>
</tr>
<tr>
<td>AFSL</td>
<td>Australian Financial Services Licence</td>
</tr>
<tr>
<td>AGA</td>
<td>Australian Government Actuary</td>
</tr>
<tr>
<td>AHURI</td>
<td>Australian Housing and Urban Research Institute</td>
</tr>
<tr>
<td>AIG</td>
<td>AIG Australia Limited</td>
</tr>
<tr>
<td>Allianz</td>
<td>Allianz Australia Insurance Limited</td>
</tr>
<tr>
<td>APRA</td>
<td>Australian Prudential Regulatory Authority</td>
</tr>
<tr>
<td>ARPC</td>
<td>Australian Reinsurance Pool Corporation</td>
</tr>
<tr>
<td>ARR</td>
<td>Australian Rainbow and Runoff</td>
</tr>
<tr>
<td>ASIC</td>
<td>Australian Competition and Consumer Commission</td>
</tr>
<tr>
<td>ASIC Act</td>
<td>Australian Securities and Investments Commission Act 2001 (Cth)</td>
</tr>
<tr>
<td>BCA</td>
<td>Building Code of Australia</td>
</tr>
<tr>
<td>Brooklyn</td>
<td>Catlin Australia Pty Ltd</td>
</tr>
<tr>
<td>CBAs</td>
<td>Cost-benefit analyses</td>
</tr>
<tr>
<td>CCR</td>
<td>Caisse Centrale de Reassurance</td>
</tr>
<tr>
<td>CCS</td>
<td>Consorcio de Compensación de Seguros</td>
</tr>
<tr>
<td>CDR</td>
<td>Consumer data right</td>
</tr>
<tr>
<td>CEA</td>
<td>California Earthquake Authority</td>
</tr>
<tr>
<td>CGC</td>
<td>Code Governance Committee</td>
</tr>
<tr>
<td>CHAS</td>
<td>Coastal Hazard Adaptation Strategy</td>
</tr>
<tr>
<td>CHU</td>
<td>CHU Underwriting Agencies Pty Ltd</td>
</tr>
<tr>
<td>COAG</td>
<td>Council of Australian Governments</td>
</tr>
<tr>
<td>Commlnsure</td>
<td>Commonwealth Insurance Limited</td>
</tr>
<tr>
<td>COR</td>
<td>Combined Operating Ratio</td>
</tr>
<tr>
<td>Corporations Act</td>
<td>Corporations Act 2001 (Cth)</td>
</tr>
<tr>
<td>CPRC</td>
<td>Consumer Policy Research Centre</td>
</tr>
<tr>
<td>CRESTA Zone</td>
<td>Catastrophe Risk Evaluation Standardising Target Accumulations Zone</td>
</tr>
<tr>
<td>CSIRO</td>
<td>Commonwealth Scientific and Industrial Research Organisation</td>
</tr>
<tr>
<td>DRFA</td>
<td>Disaster Recovery Funding Arrangements</td>
</tr>
<tr>
<td>EDR</td>
<td>External dispute resolution</td>
</tr>
<tr>
<td>EQC</td>
<td>Earthquake Commission</td>
</tr>
<tr>
<td>ERF</td>
<td>Emergency Response Fund</td>
</tr>
<tr>
<td>ESLIM</td>
<td>New South Wales Emergency Services Levy Insurance Monitor</td>
</tr>
<tr>
<td>FEMA</td>
<td>Federal Emergency Management Agency</td>
</tr>
<tr>
<td>FEZ</td>
<td>Flood Exclusion Zone</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>FOFA</td>
<td>Future of Financial Advice</td>
</tr>
<tr>
<td>FOS</td>
<td>Financial Ombudsman Service</td>
</tr>
<tr>
<td>FSG</td>
<td>Financial Services Guide</td>
</tr>
<tr>
<td>GLR</td>
<td>Gross loss ratio</td>
</tr>
<tr>
<td>GST</td>
<td>Goods and services tax</td>
</tr>
<tr>
<td>GW3</td>
<td>Greater Whitsunday Alliance (Mackay Isaac Whitsunday region)</td>
</tr>
<tr>
<td>GWP</td>
<td>Gross written premium</td>
</tr>
<tr>
<td>HMGGP</td>
<td>Hazard Mitigation Grant Program</td>
</tr>
<tr>
<td>IAG</td>
<td>Insurance Australia Limited</td>
</tr>
<tr>
<td>ICA</td>
<td>Insurance Council of Australia</td>
</tr>
<tr>
<td>ICC</td>
<td>Increased cost of compliance</td>
</tr>
<tr>
<td>IDR</td>
<td>Internal dispute resolution</td>
</tr>
<tr>
<td>IER</td>
<td>Index of Economic Resources</td>
</tr>
<tr>
<td>Insurance Contracts Act</td>
<td><em>Insurance Contracts Act 1984 (Cth)</em></td>
</tr>
<tr>
<td>Insurance Contracts Regulations</td>
<td>Insurance Contracts Regulations 2017 (Cth)</td>
</tr>
<tr>
<td>IPART</td>
<td>Independent Pricing and Regulatory Tribunal</td>
</tr>
<tr>
<td>IRS</td>
<td>Insurance Reference Services Limited</td>
</tr>
<tr>
<td>ISR</td>
<td>Industrial Special Risk insurance</td>
</tr>
<tr>
<td>JER</td>
<td>Japanese Earthquake Reinsurance Company</td>
</tr>
<tr>
<td>KFS</td>
<td>Key Facts Sheet</td>
</tr>
<tr>
<td>LAQ</td>
<td>Legal Aid Queensland</td>
</tr>
<tr>
<td>LGAQ</td>
<td>Local Government Association of Queensland</td>
</tr>
<tr>
<td>LHS</td>
<td>Left hand side</td>
</tr>
<tr>
<td>Longitude</td>
<td>Longitude Insurance Pty Ltd</td>
</tr>
<tr>
<td>NA</td>
<td>Northern Australia</td>
</tr>
<tr>
<td>NAIPT</td>
<td>Northern Australia Insurance Premiums Taskforce</td>
</tr>
<tr>
<td>NCC</td>
<td>National Construction Code</td>
</tr>
<tr>
<td>NDIR</td>
<td>Natural Disaster Insurance Review</td>
</tr>
<tr>
<td>NDRRF</td>
<td>National Disaster Risk Reduction Framework</td>
</tr>
<tr>
<td>NFID</td>
<td>National Flood Information Database</td>
</tr>
<tr>
<td>NFIP</td>
<td>National Flood Insurance Program</td>
</tr>
<tr>
<td>NIBA</td>
<td>National Insurance Brokers Association</td>
</tr>
<tr>
<td>NLR</td>
<td>Net loss ratio</td>
</tr>
<tr>
<td>NOHC</td>
<td>Non-operating holding companies</td>
</tr>
<tr>
<td>NPADRR</td>
<td>National Partnership Agreement on Disaster Risk Reduction</td>
</tr>
<tr>
<td>NPANDR</td>
<td>National Partnership Agreement on Natural Disaster Resilience</td>
</tr>
<tr>
<td>NQHI</td>
<td>North Queensland Home Insurance</td>
</tr>
<tr>
<td>PDA</td>
<td>Port Douglas Apartments Committee</td>
</tr>
<tr>
<td>PDM</td>
<td>Pre-Disaster Mitigation Grant Program</td>
</tr>
<tr>
<td>PDS</td>
<td>Product Disclosure Statement</td>
</tr>
<tr>
<td>PICA</td>
<td>Prudential Investment Company of Australia</td>
</tr>
<tr>
<td>Planning and Development Act</td>
<td><em>Planning and Development Act 2005 (WA)</em></td>
</tr>
<tr>
<td>PSS</td>
<td>Premium Support Scheme</td>
</tr>
<tr>
<td>QBE</td>
<td>QBE Insurance (Australia) Limited</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
</tr>
<tr>
<td>---------</td>
<td>-----------</td>
</tr>
<tr>
<td>RACQ</td>
<td>RACQ Insurance Limited</td>
</tr>
<tr>
<td>RAC</td>
<td>RAC Insurance Pty Limited</td>
</tr>
<tr>
<td>RDA-MIW</td>
<td>Regional Development Australia Mackay-Isaac-Whitsunday</td>
</tr>
<tr>
<td>RHS</td>
<td>Right hand side</td>
</tr>
<tr>
<td>RIS</td>
<td>Regulatory Impact Statement</td>
</tr>
<tr>
<td>RMS</td>
<td>Risk Management Solutions</td>
</tr>
<tr>
<td>RoA</td>
<td>Rest of Australia</td>
</tr>
<tr>
<td>SCA (Qld)</td>
<td>Strata Community Association (Qld)</td>
</tr>
<tr>
<td>SCA</td>
<td>Strata Community Association</td>
</tr>
<tr>
<td>SCIA</td>
<td>Strata Community Insurance Agencies Pty Ltd</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and medium enterprises</td>
</tr>
<tr>
<td>SPPs</td>
<td>State planning policies</td>
</tr>
<tr>
<td>Suncorp</td>
<td>AAI Limited</td>
</tr>
<tr>
<td>SUU</td>
<td>Strata Unit Underwriting Agency Pty Ltd</td>
</tr>
<tr>
<td>TCIP</td>
<td>Turkish Catastrophe Insurance Pool</td>
</tr>
<tr>
<td>The Code</td>
<td>General Insurance Code of Practice</td>
</tr>
<tr>
<td>TIO</td>
<td>Territory Insurance Office</td>
</tr>
<tr>
<td>TREIF</td>
<td>Taiwan Residential Earthquake Insurance Fund</td>
</tr>
<tr>
<td>UFI</td>
<td>Unlicensed Foreign Insurer</td>
</tr>
<tr>
<td>Westpac</td>
<td>Westpac General Insurance Limited</td>
</tr>
<tr>
<td>Youi</td>
<td>Youi Pty Ltd</td>
</tr>
</tbody>
</table>