

ACCC Northern Australia Insurance Inquiry
GPO Box 520
MELBOURNE
VIC 3001

Re: Public submission – Northern Australia Insurance Inquiry - Second Update Report

The Royal Automobile Club of Queensland ('RACQ') thanks the Australian Competition and Consumer Commission ('ACCC') for the opportunity to provide this updated submission in response to the *Northern Australia Insurance Inquiry – Second Update Report* ('the Report').

As a proud mutual organisation, owned by members for members, RACQ has well over 100 years of experience working with and for Queensland communities. We were founded to help and serve our members, advocating on their behalf to improve lives in a range of areas, including insurance.

As outlined in our response to the *Northern Australia Insurance Inquiry - First Interim Report*, "the issues of affordability and underinsurance in Northern Australia are concerning and are likely to continue to worsen in the current climate". Queensland is disproportionately affected by the consequences of natural disasters, with the total economic cost across the State projected to be \$18.3 billion per annum by 2050¹. This demonstrates a key reason behind the underlying cause of affordability in Northern Queensland – the increased risk.

Further, the flow-on impacts of increased exposure and underinsurance can be a devastating cycle not just for individuals, but also our communities, our infrastructure, our governments and industry. From our experience, we know how important it is to empower, be proactive and to foster resilience by providing pragmatic solutions through collaborative mitigation and working together.

Insurers cannot address the issues of affordability and accessibility on their own. We can strive to achieve adaptable, thriving and inclusive communities by implementing measures with the support of key stakeholders, which can only work together in a strategic and cohesive way. It is imperative that we shift the focus from price, to one that considers the individual consumer risk and best-suited coverage. From there, we can collectively understand and action how the individual, the community in which they live, their government and their insurer can work together to decrease their current level of insurance risk.

¹ Building resilience to natural disasters in our states and territories, Australian Business Roundtable, 2017.



Mechanisms such as a government mutual or reinsurance pool do not address the underlying issue at hand. Improving affordability in Northern Australia is reliant on a balance of education, mitigation funding, updated building codes and in some cases, even relocation. RACQ supports the extended framework proposed by the Insurance Council of Australia outlined in their response to this Report. The next logical step is to bring the ideas together in a united, bi-partisan way to enable real action, guidance and support for Northern Australian communities.

RACQ is also conscious that there may be unintended consumer impacts from the recommendations noted in the Report, particularly when consideration is given to the evolving regulatory environment. A broader approach is imperative to understand the connected impacts these changes will have on our communities, rather than combating them in isolation.

We commend the ACCC on conducting this inquiry and for the opportunity to present this submission. Ultimately, RACQ would welcome the opportunity to work with government and communities in the spirit of transparency and collaboration, to the benefit of Australians who are most in need of our help.

RACQ thanks the ACCC for the opportunity to provide the following submission and to contribute to shaping the future of insurance in Northern Australia. Should you need to discuss any of the items raised in this letter, you can contact me on telephone (07) 3361 2741 or email rosalind.searle@racq.com.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Rosalind Searle'.

Rosalind Searle

Acting General Manager Insurance Product and Distribution



RACQ provides the following submission in response to the Australian Competition and Consumer Commission's ('ACCC') Northern Australia Insurance Inquiry - Second Update Report ('the Report').

Measures

As stated in our submission to the ACCC's Northern Australia Insurance Inquiry - First Interim Report, RACQ supports collaborative mitigation. A key driver for higher premiums in Northern Australia centres on the increased risk of loss due to an increase in the frequency and severity of perils and disasters in that region. As an insurance mutual, RACQ advocates the importance of enabling the community to better understand and mitigate their risks. We strongly encourage the ACCC to recommend a holistic approach to improving the affordability and availability of insurance in Northern Australia. Further, any measures should incorporate elements of education, safety and preparedness for disasters.

The insurance industry stands alongside the different levels of government, other industries, our communities and individuals (whether they have insurance or not) in contributing to reducing disaster risk. This approach to collaborative mitigation is aligned to the National Disaster Risk Reduction Framework² ('NDRRF'); a framework that outlines a coordinated approach to reducing disaster risk in Australia. The NDRRF "guides national, whole-of-society efforts to proactively reduce disaster risk in order to minimise the loss and suffering caused by disasters".³ Recognising the importance of disaster risk mitigation being a shared responsibility, the Australian Government invited all states and territories, local government, and key private sector representatives to work together to co-design and develop this framework. RACQ encourages the ACCC to leverage the principles, strategies and action plans of the NDRRF when recommending measures to improve affordability and availability of insurance in Northern Australia.

RACQ also notes that for any measure to be successful, significant funding is required from the different levels of government. Placing pressure on the insurance industry to fund these measures will have flow on impacts to consumers who are doing the right thing by having insurance in the first place. Insurance also works on the basis that risk can be spread against a range of locations, peril impacts and risk levels. Therefore, RACQ recommends implementing a range of measures, through an extended, cohesive framework, across Australia to ensure holistically, that Australians are better prepared for disasters. These measures could include a focus on education, mitigation funding, updated building codes and in some cases, even relocation. This will improve the overall sustainability

² <https://www.homeaffairs.gov.au/emergency/files/national-disaster-risk-reduction-framework.pdf>

³ <https://www.homeaffairs.gov.au/emergency/files/national-disaster-risk-reduction-framework.pdf> - page 6



of insurance and will have positive impacts on affordability in Northern Australia, as the risks are improved and claims costs can be better balanced.

In regard to the specific measures identified in the Report on pages 31-33, RACQ makes the following submissions:

1. Reinsurance pool

The Australian Reinsurance Pool Corporation ('ARPC') was identified in the Report as the only government backed reinsurance pool operating in Australia. The ARPC works well as:

- it recognised that losses incurred due to a terrorist incident were not usually covered by insurance policies;
- it applies to commercial property and business interruption losses only;
- Australia experiences very few terrorist incidents; and
- it is applied nationally.

RACQ has concerns that the same approach would not be appropriate in Northern Australia due to cover already being available for exposures in that region, the volume of policies and the increasing frequency of devastating perils and disasters (and subsequent loss). Subsequently, there will be higher costs to administer the claims, due to higher volumes of expected claims, and this will not be comparable to the ARPC. Further, there will be higher costs to fulfil claims (repair, replace, rebuild) in remote locations.

RACQ also calls out that insurers participating in the scheme attribute a portion of the premium charged to policyholders to cover the associated costs. Although well-intentioned, this may place an additional, unanticipated financial burden on consumers in Northern Australia. Further, this approach does not address the issue that premiums are higher in this region primarily due to the higher risk of loss as a result of perils and disasters.

RACQ also recognises that there are learnings from internationally implemented measures, such as New Zealand's Earthquake Commission ('EQC'). RACQ notes, however, that the EQC only applies to building insurance cover up to \$150,000 sum insured and not to contents cover.⁴ RACQ is concerned that if this were to be implemented in Australia, it may encourage underinsurance as a significant portion of policyholders in Northern Australia currently have sum insured values over this threshold. Further, like the ARPC, the EQC influences the premium paid by the consumer through the inclusion

⁴ <https://www.eqc.govt.nz/>



of an excess. RACQ again reiterates that this may unintentionally contribute to the affordability issues identified in Northern Australia.

The second international reinsurance pool identified in the Report was the Turkish Catastrophe Insurance Pool ('TCIP'). The Turkish government leverages the risk mix of international reinsurance to balance significant geographic specific losses.⁵ However, akin to the previously mentioned reinsurance pools, the TCIP only provides coverage for up to \$50,000 AUD sum insured. Further, it only applies in regard to losses due to earthquakes.

2. Insurance mutual

RACQ is proud to be an insurance mutual, owned by members for members. We have over 100 years' experience in Queensland and over 40 years within insurance. We are able to offset localised risk as we balance a spanning geographic spread and we give back to policyholders and their communities. For example, last year we:

- provided \$154,000,000 value for members;
- supported 39,147 student's education through our programs for schools;
- contributed \$428,000 to community groups through RACQ Foundation; and
- rescued 2,756 Queenslanders through our Rescue Helicopter Network.

Whilst RACQ provides the significant value highlighted above, we also need to ensure we are sustainable as a business. This will enable us to continue to provide great service to our members and to offer insurance in high-risk locations, such as Northern Australia.

Two international examples of government funded insurance mutuals were identified in the Report , including the California Earthquake Authority ('CEA') and the Florida's Citizens Property Insurance Corporation ('FCPIC'). Although the CEA appears to be addressing a gap in the market, "only about 10% of homes in California have earthquake insurance"⁶, there are still underinsurance and affordability concerns. Further, the FCPIC experience has identified some concerning elements, including if the surplus is depleted due to a particular disaster, policyholders are required by Florida law to fund any deficit.⁷ This places an additional financial burden on policyholders, who are already doing the right thing by proactively protecting their assets.

⁵ <https://dask.gov.tr/tcip/index.html>

⁶ <https://www.cbsnews.com/news/california-earthquake-insurance-homeowners-on-shaky-ground-when-it-comes-to-earthquake-protections/>

⁷ <https://www.citizensfla.com/who-we-are>



RACQ strongly discourages the establishment of a new insurance mutual, particularly for Northern Australia, due primarily to the following:

- RACQ is an insurance mutual active in this region, establishing another one will not address the underlying issue surrounding increased risk and susceptibility to disasters and perils.
- significant time and funding will be required to plan, establish and market it.
- if it is targeted to a specific region, there is an increased risk that the mutual will not be sustainable, as it will not be able to offset the risks against regions less prone to disasters and perils.

RACQ welcomes discussions with the ACCC, other regulatory bodies and the various levels of government, regarding opportunities on how we may continue to assist in this space.

3. Direct subsidy

RACQ recognises the value in offering subsidies to policyholders to influence insurance in Northern Australia. RACQ stresses the importance of government funding, as any cost imposed on insurers to fund this measure will still have flow-on impacts to policyholders in regard to premium pricing.

RACQ notes Australia's successful private health rebate scheme and encourages the ACCC to leverage the learnings and approach of that scheme.⁸ However, RACQ does highlight that the private health rebate scheme is designed for consumers with the financial stability to fund that coverage. Any subsidy scheme for insurance will need to have assessments built into the frameworks to ensure it is implemented fairly. Further, to minimise the risk of underinsurance, it is recommended that a flat fee be offered, as opposed to a percentage of the premium.

RACQ also stresses that by focusing on buckets of money, underlying risks associated with properties in disaster prone regions, such as Northern Australia, may not be addressed. Any direct subsidy measure will need to be balanced with public and private mitigation, and robust community awareness campaigns (see below for RACQ's position on these measures). The removal of stamp duty on home, contents and strata products (as detailed in Recommendation 1) will also contribute to a holistic approach to improving affordability and availability of insurance in Northern Australia.

⁸ <https://www.abc.net.au/news/2019-07-25/health-care-system-crisis-as-people-ditch-private-health-cover/11343052>



4. Private mitigation

RACQ is supportive of private mitigation measures and have actively advocated for enabling the public to take personal accountability in making their properties more resilient, and thus lowering their risk. Further, the NDRRF's Strategy B highlights the importance of mitigation activities.⁹

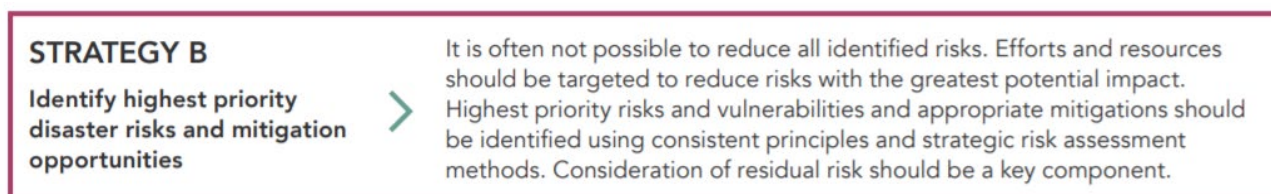


Figure 1: National Disaster Risk Reduction Framework, Strategy B.

As identified in the Report, the Queensland Government Household Resilience Package was a great initiative that encourage consumers to undertake improvements to their household to mitigate against disasters. It was means tested and was implemented directly to the contractor hired to undertake the relevant work.¹⁰ However, this initiative has closed and is no longer available.

It is important that any private mitigation measures are implemented holistically. By focusing on this measure in isolation, there may be an impact on vulnerable consumers, particularly those who may not be in a position to afford participating in private mitigation measures. There may also be unintentional consequences of private mitigation measures, including placing them under additional financial stress, and a rise in associated building costs, particularly in smaller, more regional locations.

5. Public mitigation

RACQ strongly supports public mitigation measures, as they generally provide longer term solutions and the benefits extend to whole communities, as opposed to individuals. Further, these measures have been recommended on numerous occasions by a range of regulatory bodies, including in the Productivity Commission's 2014 Inquiry Report into Natural Disaster Funding Arrangements¹¹. It is unfortunate that while public mitigation is seen to be the preferred solution for lowering the risk, and thus the premium of consumers, it has not been consistently implemented. This is primarily due to the success of these measures being at the mercy of election cycles and bipartisan support.

⁹ <https://www.homeaffairs.gov.au/emergency/files/national-disaster-risk-reduction-framework.pdf> - page 15

¹⁰ <https://www.qld.gov.au/housing/buying-owning-home/financial-help-concessions/household-resilience-program#how>

¹¹ <https://www.pc.gov.au/inquiries/completed/disaster-funding/report/disaster-funding-volume1.pdf>



RACQ provides examples of public mitigation could include:

- Improving build requirements for new properties;
- Introducing no build zones in high impact areas;
- Installing flood walls, levies and gates to minimise the impacts of flooding; and
- Increasing ecosystems to regulate floods and lowering the risk of surface run off.

RACQ also notes and supports efforts made by the Queensland Government in regard to the recently published Queensland Disaster Resilience and Mitigation Investment Framework. This Framework “provides guidance on effective investment decision-making and prioritisation to support disaster resilience and mitigation across Queensland”.¹² RACQ encourages the ACCC to leverage this framework, along with the NDRRF, when considering measures to improve affordability and accessibility in Northern Australia.

6. Other potential measures

RACQ supports initiatives centred on improving consumer understanding of their risk (both from an individual and community basis) and ways they can protect and mitigate. Community awareness and education initiatives are referenced in all of the Government measures above. They not only improve financial literacy, but also encourages stakeholders to be accountable for contributing to better outcomes for all.

RACQ also supports the Insurance Council of Australia’s (‘ICA’) proposed solution as detailed in their response to the ACCC’s Northern Australia Insurance Inquiry – Second Update Report. It aligns with our position that a collaborative approach to mitigation is needed to improve insurance affordability not only in Northern Australia, but Australia as a whole.



Figure 2: ICA's proposed solution as detailed in their response to the ACCC's Northern Australia Insurance Inquiry – Second Update Report

¹² <https://www.qra.qld.gov.au/our-work-resilience/queensland-disaster-resilience-and-mitigation-investment-framework>



RACQ provides the following feedback on the Recommendations identified within the Second Update Report.

Feedback on specific recommendations

Recommendation 18: Disclose premium impacts of optional inclusions or exclusions

RACQ maintain that informed decisions about choice of cover should encompass a number of elements relating to the risk, not wholly based on potential cost impacts to the premium. RACQ maintain that this Recommendation increases the possibility of customers selecting cover based on perceived premium savings rather than an informed risk assessment.

As highlighted in our response to the ACCC's Northern Australia Insurance Inquiry - First Interim Report, RACQ encourages a focus on meaningful measures that centre on how insurers can better equip customers to manage their risk, rather than manage the price alone. This is particularly important given the frequency and severity of perils and disasters in Northern Australia and the flow on impacts of increased exposure and underinsurance.

Recommendation 21: Disclosure where premium increases are capped

RACQ sustain our position on this Recommendation, as detailed in our response to the ACCC's Northern Australia Insurance Inquiry - First Interim Report.

Capping is a mechanism to protect renewal business premiums from high increases and could accumulate over time for different reasons. Further, it should be recognised that capping tools are used for a variety of reasons, not just to signal an increase in expected associated costs. RACQ proposes additional consideration be given to how information of high risk could be better communicated to customers to enable consideration of protection and mitigation.

Recommendation 26: Giving consumers more control over how claims are settled

Our position on the intent of this recommendation, as outlined in our response to the ACCC's Northern Australia Insurance Inquiry – First Interim Report, has not changed. However, given the additional requirements stipulated in the final recommendation, RACQ suggests more work is needed to ensure that the specific requirements are clear and have the desired effect of delivering a consumer benefit which outweighs any increased administrative costs.

To assist we make the following comments in respect to the recommended requirements below to be included in the disclosure:



- *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.*

If the disclosure requirement were to be worded in this manner, then the consumer could be misled as it infers that in every case an insurer will provide such a guarantee in respect of the quality, cost or timeliness of the work. That is not necessarily the case.

RACQ suggests that the disclosure requirement in the 'one pager' align to the Interim Report reproduced below and refer to any obligations that the insurer would otherwise have to manage or guarantee the quality, cost or timeliness of any repair the customer chooses to undertake.

*'discharge the insurer of **any** obligations to manage or guarantee the quality, cost or timeliness of any repair the customer chooses to undertake'.*

(bolded word is our emphasis)

By way of background, the 2014 General Insurance Code of Practice (currently under review) at 7.20 as below places responsibility on an insurer for repairer workmanship and materials, but it is narrower than what is inferred in the recommended requirement in terms of quality, cost and timeliness :

Repair Workmanship and Materials

7.20 *Where we have selected and directly authorised a repairer, we will:*
 (a) *accept responsibility for the quality of the workmanship and materials; and*
 (b) *handle any Complaint about the quality or timeliness of the work or conduct of the repairer under our Complaints process.*

Guarantees may also be provided by insurers in their product offering. Even if a guarantee is provided it may not be as broad as is inferred in the recommended requirement in terms of quality, cost and timeliness.



- *The consumer should seek advice from their mortgage lender (if applicable) about any implication of accepting a cash settlement for their mortgage.*

If the element applies to all cash settlements no matter the value, then there will be additional administrative burden on mortgage lenders and insurers (in responding to mortgage lenders enquiries) that will need to be taken into account.

- *The consumer should obtain independent quotes for repairing/rebuilding their property before making their decision.*

RACQ suggests that this element be made clearer to the consumer that the independent quote should be sought on a 'like for like' basis.

Should this recommendation be accepted, RACQ welcomes discussions around the specific wording of the elements.

Other considerations

RACQ would also respectfully suggest that those specific recommendations identified in the Report, such as unfair contract terms, cash settlements and other aspects of claims management are now best left for specific reforms planned by the Federal Government, as set out in the Royal Commission Implementation Roadmap, published on 19 August, 2019.¹³ In turn, the Australian Securities Investments Commission's¹⁴ and the Australian Prudential Regulation Authority's¹⁵ respective 2019 - 2023 Corporate Plans, both published on 29 August, 2019.

¹³ https://treasury.gov.au/sites/default/files/2019-08/399667_Implementation_Roadmap_final.pdf

¹⁴ <https://download.asic.gov.au/media/5248811/corporate-plan-2019-23-published-28-august-2019.pdf>

¹⁵ <https://www.apra.gov.au/media-centre/media-releases/apra-releases-2019-2023-corporate-plan>