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### **Submission response to draft Northern Australia Insurance Inquiry interim report**

Regional Development Australia (RDA) Pilbara is pleased to submit a response to the interim report on the Northern Australia Insurance Inquiry by the Australian Competition and Consumer Commission (ACCC).

RDA Pilbara provided a submission in 2018 to the Inquiry, which highlighted the negative impacts that the cost and availability of insurance was having on Pilbara businesses and consumers. We are fully supportive of the findings and 15 recommendations of the Interim Report, which clearly analyses these issues and challenges.

We thank the ACCC for the breadth and comprehensive approach that has been taken to the challenges of access to insurance in Northern Australia.

We wish to comment on particular focus areas and draft recommendations that will be covered in the next phase of the Inquiry.

Turning to the specific focus areas for 2019 we would like to make the following observations:

#### **Focus Area 1 and 2 (*Measures to further improve insurance affordability and availability and, Detailed case studies on sub-regions in northern Australia*):**

Within these focus areas is the intention to undertake detailed analysis in a number of regions in 2019. RDA Pilbara would strongly recommend that the Pilbara is one of those regions that warrant a detailed case study. As has been shown in the data the Pilbara is one of the worst affected areas with regard to insurance premiums. Ironically the Pilbara is also one of the key economic engines that drives the Western Australian and Australian economies. An ongoing major challenge has been to reduce the cost of doing business in the Pilbara as well as to diversify the economy and encourage a more permanent workforce. Owning your own home, and opening a new business are all constrained by the local cost structures of which insurance is one important element. In addition, it would be useful to assess the degree to which the providers of insurance distinguish between the different urban locations in the Pilbara and the degree to which they recognise risk mitigation undertaken by both local residents and local councils.

#### **Focus Area 4 (*Identify and investigate barriers to expansion (or re-entry)*):**

The lack of choice for consumers is a key concern in the Pilbara, and in particular in the smaller centres such as Newman, Tom Price, Onslow, Paraburdoo and the like. It would be useful for the Inquiry to see if there are any innovative approaches that have been used in other remote regions

(in Australia or worldwide) that enables insurance providers to expand their offerings and also increase the level of competition which should help to drive prices down.

**Focus Area 5 (*Understanding non-insurance and how it may be addressed*):**

A main concern for RDA Pilbara in our engagement with the community is the use of and access to insurance for low income households as well as for the Indigenous community. While it is probable that any regulatory imposition on the insurance industry to offer products to lower income households could shift the cost burden onto the rest of the insured community there needs to be a solution to this dilemma. Could some form of pooling of clients be effective? Is there a role for the Aboriginal Corporations to play a part in the insurance business model? Are there innovative “insurance-lite” products that could be offered? The gap between the haves and the have-not is widening and we strongly support further exploration and policy recommendations in this area.

Turning to the Draft Recommendations, we have the following observations on specific recommendations. As an overall statement we are in favour, in principle, of all of the draft recommendations:

**Draft Recommendation 1 (*Insurers should estimate a sum insured for customers*):**

We fully support as part of the transparency and better understanding by the client of risk of under-insurance. In the Pilbara this is a key concern as building costs are very high and with property market prices depressed there is a clear risk of under-insurance by consumers.

**Draft Recommendation 3 (*Disclose premium impacts of optional inclusions or exclusions*):**

This is a very important area that requires considerable analysis. The “issues” raised are important, such as the challenges to insurers to implement and the implications for consumers. However, in a region such as the Pilbara there are very significant differences in climatic risk depending on if you are in a coastal area, or further inland, or in cyclone affected regions etc. These differences need to be clearly understood and cost implications spelt out to the individual consumer.

**Draft Recommendation 4 (*National home insurance comparison website*):**

With modern technology there should be little difficulty in developing such a comparative website. We would prefer websites developed at the State level as these would be more relevant to local consumers. Such websites would help to drive competition and also expose locations that are facing premium hikes etc.

**Draft Recommendation 7 (*Consider likely insurance costs before purchasing real estate*):**

This recommendation could be linked to Draft Recommendation 4 where comparative costs of insurance are on a state website so consumers are aware from the outset what the costs could be and then backed up by a requirement to get an insurance estimate before purchasing property.

**Draft Recommendation 9 (*Strata managers to be remunerated by body corporate only*):**

In principle any policy that removes conflict of interest should be supported. The issues raised in the report for investigation are important as it is not clear whether any real difference would occur if body corporates are more involved. Do body corporates have the skills and time to meaningfully take on this role? Once again easy access to comparative data and insurance estimates would be of great benefit.

**Draft Recommendation 11 (*Giving consumers more control over how claims are settled*):**

This is a very interesting recommendation, as on the face of it, it provides greater choice to the consumer. However, it may also create unexpected risks – for example is there a possibility of the insured consumer receiving the payout and then foregoing undertaking the repairs/rebuild thereby leaving the property in a state of disrepair which could affect the neighbourhood? Could there be a risk of mortgage default if a consumer takes the payout and leaves the property? At a time when many Western Australian households are carrying significant debt this issue requires careful analysis to ensure an appropriate policy response.

**Draft Recommendation 12 and 13 (*Clearly stated mitigation discounts and, Information on mitigation works that could reduce premiums*):**

These are very important recommendations for the Pilbara given the different climatic and locational risks throughout the region. In particular undertaking mitigation for cyclones, flooding and fire risks should be “rewarded” by premium discounts. Looking to the future as older properties require increasing levels of mitigation or new urban developments are encouraged to adopt mitigation so these actions should be supported by appropriate discounts. It seems logical for there to be a “standard” set of discounts linked to a specific set of mitigation measures (x% discount for y measure) so that consumers can see the benefits of such measures. In regions such as the Pilbara this would encourage best practise for repairs and re-builds. Given the evidence of the excessively high premiums prevalent in the Pilbara, we believe meaningful mitigation discounts would incentivise consumers to take appropriate action.

**Concluding Remarks:**

RDA Pilbara recently completed its regular research on the Cost of Doing Business in the Pilbara. This latest report once again highlighted the impact of the high cost of insurance products on businesses and consumers.

The report also raises another issue that the Inquiry may wish to investigate. In the Pilbara there has been a dramatic shift in the market value of properties comparing the mining boom to post-boom periods. During the boom (2008-2013) there was a rapid increase in the market value of properties in all the main centres such as Karratha, Port Hedland and Newman. In some cases, relatively modest homes were selling at up to the \$1 million mark. Post boom (2015-2018) the same properties market value fell dramatically to the region of \$300,000-\$400,000. However, re-build costs have not fallen and in current market conditions it is quite possible that to re-build a house would cost considerably more than buying a similar existing property. RDA Pilbara would be keen for these market distortions to be investigated and their impact on insurance offerings to be analysed if the Pilbara is chosen as a case study under the next phase of the Inquiry.

Yours sincerely



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