

Insurance premiums in Karratha

From: Terry [REDACTED]
To: Insurance <insurance@accc.gov.au>
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Attachments: Insurance premiums in Karratha!.docx (175.53 kB)

Good morning

I received an email from our property manager regarding the ACCC investigating insurance premiums in the Northwest.

A few months ago after trying to renew our annual premium I thought I would do an investigation of my own to see why premiums have escalated so much.

The only thing I could find was that insurance companies are colluding and Northwest residents are propping up insurance companies losses from disasters anywhere else in Australia.

I did forward this information to both the relevant state and federal member and never received a reply. Please find attached the letter.

Regards

Terry Scott
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INSURANCE THEIVES

We own an investment property in Karratha and are sick and tired of being ripped off by scheming insurance companies. There has to be an investigation into colluding insurance companies and how they are ripping off home owners in the Pilbara? Every year our premium escalates, in the past 5 years our premium has increased 10 fold even though the value of our property is less than a third of its value 5 years ago. Come policy renewal date I ring around for quotes and look online only to be told that these insurance companies have to increase their premiums because of the many natural disasters on the eastern seaboard, ie; the recent devastating cyclones and floods like earlier this year or the regular furphy, the cost of rebuilding in the Northwest. Someone needs to tell these thieves that the boom is over in the Pilbara and home owners there should no longer be bailing out insurance companies who obviously collude in order to ask these outrageous premiums.

I decided to do a bit of research and get some facts together and approach the federal and local member for Karratha and see what sort of reply I would get. But the more I looked into what insurance companies pay out for natural disasters the more confused I became because the sums just don't add up!

Firstly I thought I would get a quote for a property online with exactly the same specifications as ours in Karratha but in Innisfail, Queensland. This was ground zero, where over the past few years' cyclones have flattened most of this township. The cheapest quote I found for my property in Karratha was APIA who came in at \$7712, SGIO \$12704 and QBE \$11845.

What was very concerning was the exact same specced property in Innisfail where buildings are not built to anywhere near the same cyclone category as Karratha, the quote came in at \$2943, almost \$5000 less than the cheapest quote for Karratha. We have never had an insurance claim for cyclonic damage and the house has never been damaged in any way apart from tree loss. Even premiums in Exmouth are 35% cheaper than Karratha, same cyclone rating and is an isolated town on the Northwest Cape.

I built our house in 1996 and it was built to cyclone category D, the toughest building code in Australia, Cat D buildings are engineered to withstand the impact of a Cat 5 cyclone. These new building codes were introduced in 1985 mostly because of the destruction caused by Cyclone Tracy in Darwin. My questions are why do homeowners in the Pilbara region subsidise the east coast even though the hundreds of cyclones that have impacted the area over the past 50 years have had minimal damage compared to the complete devastation over east? And secondly why doesn't the east coast have the same cyclone rating (Category D) as the Pilbara? To this day the category rating for the Queensland coast is Category C which means that buildings have to be built to withstand a Cat 4 cyclone.

So what happens when a Cat 5 hits the Queensland coast? Total devastation, and our premiums in the Pilbara go up, and go UP dramatically! Of course it costs more to build a house to cyclone category D, but do your best to find out when an insurance company forked out big dollars to rebuild a house (or complete town) in the Pilbara. I mean billions like just recent events over east. I couldn't find much evidence either! Yes these towns on the Pilbara coastline are relatively young in comparison to their eastern neighbours which means that they were built to a stricter building code but why the excessive insurance premiums?

For example Cat 5 Cyclone Orson which passed just south of Karratha and hovered off the coast for what seemed like eternity caused a total of \$20 million in damage, Cyclone Vance, another Cat 5 damaged Exmouth in 1999, mostly demountable buildings and fibros causing approximately \$80 million total damage but the defence housing built to higher standard was left mostly unscathed, while the mother of all cyclones cyclone Olivia which produced the most powerful non tornadic winds ever recorded at 408kph in 1996 caused more damage to Tuna farms off Port Lincoln in South Australia from massive rainfall than damage to property in the Pilbara. In comparison cyclone Yasi caused **\$3.6 billion** worth of damage in 2011, in 2017 Cat 4 cyclone Debbie **\$2.5 billion** and cyclone Larry **\$1.5 billion**. It just does not compare. Since government departments began keeping records regarding damage caused the average cost to Western Australia has been between \$40 million and \$100 million in TOTAL ANNUALLY.

I lived in the Northwest for almost 40 years and witnessed many cyclones, most only producing superficial damage. Yes bridges and roads have been washed out over the years but is there any comparison between this and the wind damage and floods over east? There has to some sort of enquiry into why our premiums are so high. We are well aware that it costs mining companies to close down operations when cyclones are approaching which in turn affects the national economy but this should have absolutely no impact on home insurance in the area.

The graph below is proof that property owners in the Pilbara are being ripped off by insurance companies. Believe it or not the green line in the graph is what insurance companies have paid out for cyclones in WA, barely visible compared to the east coast costs. The \$1billion paid out by insurance companies in 2010 was from the massive hail storm that lashed Perth causing more damage than ANY cyclone that has EVER crossed the northwest Australian coastline. The reasons why premiums have risen massively in Karratha over the past decade is because insurance companies have cashed in from the now long gone mining boom and the myth that home owners in the Pilbara have a high disposable income. Just like the national economy the Pilbara is also propping up insurance companies who have forked out millions to pay for carnage caused by natural disasters over east. Nationally the average annual insurance cost of natural disasters over the past 45 years was \$1.178 billion. Western Australia's **total** share of the \$1.178 billion is about 3% of that.

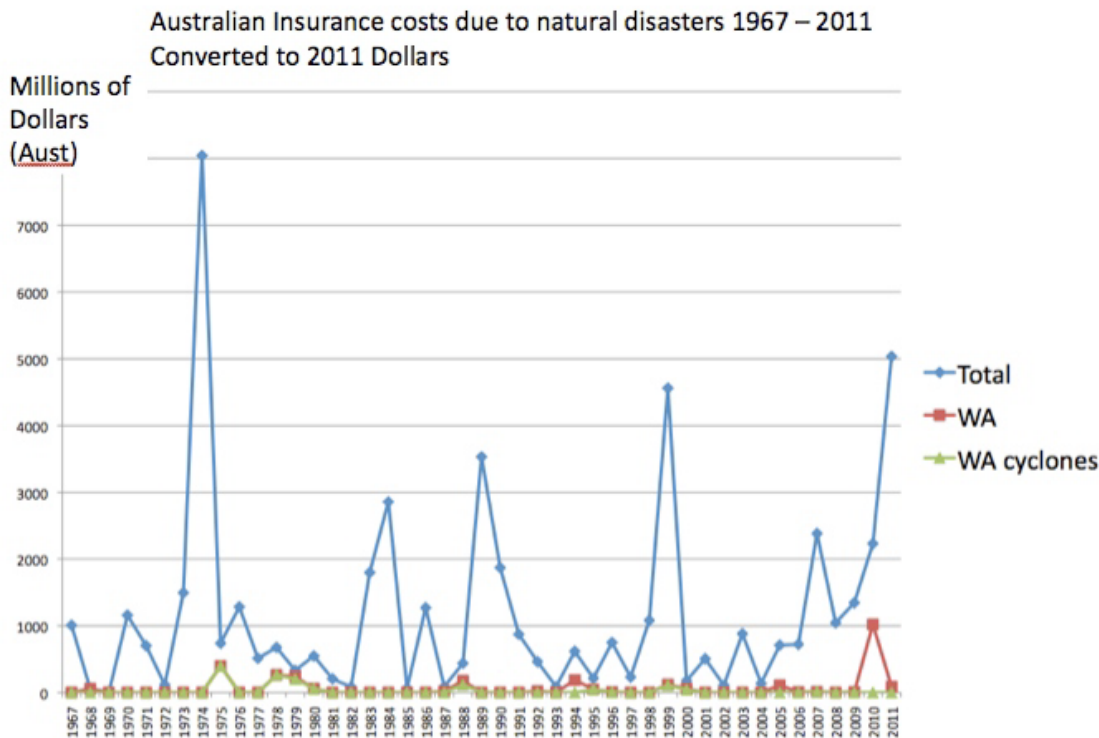


Figure 3 Total Australian insurance costs associated with natural disasters compiled from Insurance Council Australia disasters database. Also shown are the contributions from disasters and tropical cyclones located in Western Australia

As per table below the Northwest of WA does not even get a mention in the top 15 insurance losses in Australia, why are we being charged up to 4 times more for insurance than our counterparts in the Eastern States? These tables are only up to March 2102, there has been massive floods and cyclones on the east coast since then.

Table 1 The highest 15 insurance losses due to natural disasters (losses are inflation-adjusted to 2011 Australian Dollars). Compiled from the Insurance Council of Australia Disaster Statistics, as of 29 March 2012. (Note the damage associated with TC Madge is labelled TC Leah in the ICA database).

Losses in 2011 Australian dollars Year Loss (\$Aust million) from Insurance Council Data

Hail Sydney NSW 1999	4296
Tropical Cyclone Tracy NT 1974	4090
Earthquake Newcastle NSW 1989	3240
Tropical Cyclone Wanda and subsequent flood Qld 1974	2645
Flooding Qld 2011	2377
Hail Brisbane Qld 1984	2063
Severe storm east coast low NSW 2007	1742
Tropical Cyclone Madge Qld, NT WA 1973	1492
Fire Ash Wednesday Vic 1983	1489
Tropical Cyclone Yasi Qld 2011	1405
Hail Sydney NSW 1990	1297
Fires Vic 2009	1266
Melbourne Storm Vic 2010	1160
Perth Storm WA 2010	1019
Tropical Cyclone Ada Qld 1970	1001

Table 2. The highest 15 insurance losses due to natural disasters in Western Australia (losses are inflation-adjusted to 2011 Australian Dollars). Compiled

from the Insurance Council of Australia Disaster Statistics, as of 29 March 2012.
 (Note: in the ICA database, certain of these tropical cyclones are named incorrectly, for example the damage at Port Hedland in 1975 is attributed in the database to TC Thelma. The damage associated with TC Rosita is labelled in the database as caused by TC Paul.)

Natural disaster	Location	Date	Loss Million Dollars
Storm Perth		22-Mar-2010	1019
Tropical Cyclone Joan	Port Hedland	7-Dec-75	398
Tropical Cyclone Alby	Perth	4-Apr-78	265
Tropical Cyclone Hazel	Kimberley and Pilbara Coast	13-Mar-79	202
Storm Perth		23-May-94	187
Tropical Cyclone Vance	Exmouth, Onslow	22-Mar-99	108
Storm South West		22-Aug-88	60
Earthquake Meckering		14-Oct-68	57
Fire Margaret River		24-Nov-11	53
Tropical Cyclone Bobby	Kalgoorlie	25-Feb-95	48
Earthquake Cadoux		2-Jun-79	38
Fires Perth		7-Feb-2011	35
Tropical Cyclone Amy	Port Hedland	10-Jan-80	31
Tropical Cyclone Rosita	North	20-Apr-2000	28
Tropical Cyclone Dean	Pilbara	1-Feb-80	27

Note that the 2 largest cyclones to impact the Pilbara coastline in recent times were near Karratha, cyclones Orson and Olivia and they don't even get a mention in the top 15 WA insurance losses.

So 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.

I hope that my house never suffers damage from a tropical cyclone and am confident that it will withstand such an event because it is built to Cyclone Category D and has been left unscathed over the past 20 years.

It makes you wonder if it is worthwhile owning a rental property in Karratha when half of your annual rental income goes to paying these money grabbing thieves. It's about time insurance companies woke up and realised that the Northwest isn't the cash cow it used to be.

Terry Scott