RESPONSE TO ACCC FOCUS QUESTION 1

Measures to improve affordability and availability

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Contents

Response to last report

Personally, I think the report is outstanding in its genuine understanding of the concerns and needs of consumers. Particularly in the areas of:

- Recommending complete disclosure of premiums and how much we're paying for what inclusions
- Recommending a breakdown of premium and definitions of possible savings depending on defined mitigation work

The current work completed by the ACCC may not lower premiums to an affordable point in the short term but will show who is operating in an area and for what products. This can only benefit the consumer.

With regards to the suggested comparison website, I have always said that any national comparison website would have to be mandatory for insurers to be a part of in order for it to work. Currently I understand the big 4 insurance groups do not take part in any comparison website.

However, I believe a comparison website which caters for strata will be extremely difficult to design as all strata properties are different – see focus questions 6 to 22 submission to Home Strata Insurance Inquiry 2014 (I believe you have access to the full submission but I have a copy if required).

I would like all the 28 recommendations of the ACCC, some of which have been recommended before, to be implemented as soon as possible and the Treasury's review into the general insurance disclosure regime to be completed.

Future Proposed Solution(s)

I believe any proposed solution to the crisis:

- Must have mitigation targets, mitigation infrastructure funding through levies and/or mitigation projects funded through private capital e.g. the insurance companies themselves
- Should cover all natural disasters and all areas of Australia, not just northern Australia
- Should take into account the types of property to be covered, and the types of policies currently available
- Must work with existing insurance companies rather than in competition to them. I am not in favour of a natural disaster policy in conjunction with a normal policy

Measures to improve affordability and availability

I have submitted to the NAIP Taskforce in 2015 detailed opinions of the problems and advantages of a Mutual and a Reinsurance Pool.

I understand you have seen this submission so I will not repeat it.

I have only repeated within this document previous focus questions I deem important and where they mention “cyclone” it can apply to any natural disaster.

I have also previously sent my suggested solutions to the problem of affordability and lack of competition. However, I have reattached that document to my email.

Therefore, I will try to keep this document brief.

What measures

Reinsurance Pool:

Key issues

Key issues for the reinsurance pool include how to design reinsurance for natural disaster risk so that the contracts fit with existing industry reinsurance arrangements and whether reducing reinsurance costs would flow through to lower premiums for consumers. There are also the questions of how different ways of structuring reinsurance would affect Government exposure to financial risk, and how the Government might exit over time.

Australian Reinsurance Pool Corporation:

I flew to Sydney and had a meeting with Dr Christopher Wallace, Chief Executive Officer Australian Reinsurance Pool Corporation, who administers the current Terrorism Reinsurance Pool (or did then). It was extremely interesting and informative as they are very knowledgeable.

Back after 9/11 no-one could get insurance for acts of terrorism, so the then Federal Government set up the Australian Reinsurance Pool Corporation in 2003 to cover the whole of Australia in cases of terrorism which resulted in claims above a certain limit. They provide effective reinsurance for existing insurance companies for terrorism.

They have built up their net assets over the years to close to $1B.

They had at that time a $2.9B retrocession program. This means they spread their risk amongst other international insurers and pay a premium to them to be covered for $2.9B.

Then, if that isn’t enough, they have a Federal Government guarantee of $10B. So, in fact it currently costs the Government nothing as there hasn’t been an act of terrorism they have needed to intervene in insurance wise, AND the Government gets paid interest/commission every year for the guarantee. So, in this specific case is hasn’t cost the Government anything and has provided the Government with income.

However, for natural disasters there could be a potential problem, the Government may have to intervene at an earlier point since disasters happen more often than terrorism. It could happen before the pool has built up its net assets and before it has the money to pay for the retrocession reinsurance, and that has to be thought about.

There are 2 ways a reinsurance pool could work for natural disaster claims:

1. It could agree to pay the first $? of a claim, or

2. It could agree to pay the excess of claims over a stipulated amount.

I am pro the latter definition as then it wouldn't be needed for small claims due to little major damage but only large claims due to excessive damage, and in this way insurance companies would know the limitations of their exposure to natural disasters.

I believe any natural disaster reinsurance pool should only apply to existing properties and not be applicable to new developments.

With regards to cyclones, floods and storms, new developments should take in any mitigation requirements and Councils should take proper town planning into account. In this way the current crisis is not compounded, or complicated, by allowing the market to increase exposure.

Bush fires may be somewhat different but even then properties should be built taking this risk into account.

A problem with limiting the application of any pool is the cost of any additional mitigation requirements for new builds, on top of the cost already being experienced in order to be built to a natural disaster standard. If a Developer decides the cost does not justify the work and doesn't take into account any new measures or requirements then that should have to be declared when the property is purchased so that the buyer is aware they are not covered by the Reinsurance Pool.

Advantage and Disadvantages

The following focus questions 1-5 were specifically about a cyclone reinsurance pool.

Focus question asked in a former inquiry:

1. *What are the advantages and disadvantages of a cyclone reinsurance pool, supported by the Government, with the objective of lowering consumer premiums for home, contents and strata title insurance for people experiencing affordability problems due to cyclone risk? What form of Government support would likely be required?*

There are three ways in which a reinsurance pool could operate:

a) The pool could pay out the first $? of a claim

Due to the probability of a cyclone crossing the coast every year, I would expect this option to be unrealistic.

- It would require the reinsurance pool to need extra temporary staff to process claims on an almost annual basis.
- It would almost certainly be required within the next five years
- Government monies would be required almost immediately

b) The pool could pay out after an agreed threshold had been reached requiring the insurers to retain the first portion of any loss

Using this option insurance companies would know the limits of their losses before the scheme would be required to step in.

- It is more unlikely, depending on the threshold stipulated, that Government monies would be required immediately
- Extra staff would not be required until a major cyclone hit
- It allows some time for assets to be built up

c) The pool could pay out after an agreed threshold had been reached up to a set amount, and then the insurance companies take the claim back on, or use top-up insurance

Using this option insurance companies would know the probable limits of their losses being the maximum before the scheme would be required to step in, and the possible after the scheme had completed its payout.

- It is more unlikely, depending on the threshold stipulated, that Government monies would be required immediately
- Extra staff would not be required until a major cyclone hit
- It allows some time for assets to be built up
- Government losses are clearly defined

Advantages

- There is already precedence for this idea – the ARPC
- Insurance companies are already used to working with this type of entity
- There is expertise available for how this may work since it has already happened and is working for another scheme
- Reduced reinsurance costs for all insurance companies contributing to the scheme
- Lower premiums due to the reduced reinsurance costs being passed on
- Development and refinement of mitigation procedures which can be undertaken
- Development and refinement of a database of buildings, their structure and location
- Identification and management of gaps as they are found
- Continuous updating of the field of risk and cyclones move south
- Ensuring compliance with State and Federal legislation
- Ability to expand in the future for additional types of disasters, if required.
- Government benefits from commission paid for guarantee
- Government is repaid any loan monies required at set up
- Spread of risk via retrocession with multiple reinsurers
- Insurance companies are aware of maximum loss limits
- We have the ability to estimate losses from a cyclone event
- Most claims are below $100,000, so Government intervention may not be required

If the reinsurance pool dealt with cyclones and not specifically to an area of Australia, there should be no constitutional issues. If it is made a disaster reinsurance pool there would be even less constitutional issues.

Acting as a reinsurer will alleviate where affordable insurance cover is not available via the current market and minimise the distorting effects of the government participating in a market currently provided by the private sector

If we didn't limit our thinking on a cyclone reinsurance pool then we could consider expanding any Cyclone Reinsurance Pool into a Disaster Reinsurance Pool which would result in parity for insurance premiums across Australia and remove our peaks and troughs of claims.

This option allows cyclone costs (or even all natural disasters) to government budgets to be evened out, which allows for better planning, budgeting and funding of mitigation costs.

The profits from the reinsurance pool could be invested in infrastructure mitigation projects, and possibly used for premium loans - this would reduce the pain and costs being experienced by those having to take out premium loans, which can be substantial.

Disadvantages

- Initial Government support required for set up
- Government guarantee required in later years
- Regular reviews are required for financial situation – annual
- Regular reviews are required of recommended mitigation procedures – annual for first 3 years and 5 yearly after that
- Regular reviews are required for problems with "gaps" as they occur – annual for first 3 years and 5 yearly after that
- Maintenance of database of buildings, their structures and locations - annual

There are successful examples of temporary pools including: the Australian Reinsurance Pool Corporation established in 2003; and the Community Care Underwriting agency established in 2004 when there was a public liability insurance crisis.

Fit and Definition

Focus question asked in a former inquiry:

2. *How should a cyclone reinsurance pool be designed to best fit with insurance companies' existing arrangements, including reinsurance arrangements? For example, how could cyclone and cyclone damage be defined so as provide certainty about what is covered by the reinsurance pool?*

Existing insurance companies already work with the ARPC so procedures are already in place.

Definition of damage due to cyclone:

- Structure damage including rooves
- Doors and windows
- Garages
- Water ingression
- Garden sheds
- Solar panels
- Flooding
- Storm surge – there is already a definition of the difference between storm surge and flooding
- Alternative accommodation (?)

To be excluded:

- Blue sky flooding
- Death and injury
- Business interruption
- External objects not permanently fixed to the property, such as shade sails

Price

Focus question asked in a former inquiry:

3. *How should the price insurers pay for reinsurance from a reinsurance pool be calculated?*

Very naive calculation but if the most major cyclone to hit NQ in the last decade cost us $1.2B and mitigation projects are already underway, so the losses from any future cyclone should reduce as they are completed depending where the cyclone comes ashore.

Cyclone damage in Australia costs an average of $632M annually but this includes the major cyclones of Larry and Yasi and covers all insurance and not just residential property and contents. Cyclone Yasi, the biggest yet, had domestic claims of $252M according to the JCU report completed for Suncorp (Hendersen re-released July 2015). *This was written pre TC Debbie.*

I have no experience in this field, the insurance companies themselves probably have a better idea.

Payout Limitations

Focus question asked in a former inquiry:

4. *What are the advantages and disadvantages of limiting payouts available under a reinsurance pool arrangement?*

Taking the option I prefer of the insurer taking the first portion of any claim, then the assets of the pool being used, then retrocession, and finally the Government guarantee, **should** this not be enough then the insurance companies take over again.

Advantages

- Likely maximum risk is established early for the insurance companies
- Maximum risk is established for the Government
- Pooling of risk is efficient when capacity is limited and prices are high

Disadvantages

- Insurance companies do not know the limit of their risk should there be a massive disaster, but this is the same for every country and disaster

Support Reduction

Focus question asked in a former inquiry:

5. *When and how could the Government reduce support to the market through a cyclone reinsurance pool?*

- As risk is transferred to the reinsurance market there is a reduced reliance on the Federal guarantee
- As assets increase the initial money used for set up can be repaid with interest
- The premium and investment income can be used to fund the operation
- As mitigation projects are completed then risk should also be reduced

Extend Reinsurance Pool To Cover All Natural Disasters

Australia has always had natural disasters: flood; earthquakes; cyclones; bushfires; storms; hail storms; possibility of tsunami. You name it, we get it.

I realise the option of the Cyclone Reinsurance Pool is only looking at cyclones and this has problems within itself:

- Other areas of Australia say "what about us?"
- A major event could take place, such as an earthquake in Brisbane or Sydney, and Australia (and the insurance companies) would not be prepared
- The expected cyclone area will change if the BOM and CSIRO are correct with their idea that cyclones are moving south
- The effect of climate change has not been fully considered

Let's start with a Cyclone Reinsurance Pool with the idea of expanding it as we can to cover other natural disasters.

Let Australia get into a position where all insurance companies, no matter where they operate, contribute an equal percentage per policy into a Natural Disaster Reinsurance Pool.

- All areas of Australia covered for all types of disaster
- Equality for all Australians paying for insurance
- Equality for all insurance companies
- Climate change would not make a difference to contributions
- No peaks and troughs
- Ability to continue development in any area of Australia

Adaptation of the reinsurance pool

Government support is required to supply a level of insurance cover available to fund a probable maximum loss. The biggest loss in the last decade is from Cyclones. HOWEVER, this is not all due to home and contents, and strata claims – see below.

As I understand it, the current Terrorism Reinsurance Pool has been operating since 2003, has $600M in assets, it pays for a $2.9B retrocession program and has a Federal guarantee of $10B.

So far this pool has not been required but has paid a commission to the Federal Government every year for the guarantee, and its assets are slowly building up. By 30th June 2014 the ARPC had paid the Government $325M in dividends. The ARPC will continue to pay the Government a total of $450M in fees and dividends over the next 4 years.

There are currently 57 participants in the retrocession program. In the 2014 calendar year a retrocession program of $2.9B was placed. The retrocession expense was $81.7M before retrocession commission revenue and $74.1M after.

A Cyclone Reinsurance Pool would not require this much.

Total premium revenue was $129.7M and the net premium revenue after the expense of retrocession was $48M, the average price was 3.5% of eligible policy premiums. Premium revenue is the amount charged to insurers excluding taxes collected on behalf of third parties, and it's weighted depending on location. E.g. Sydney CBD may pay 12% and Noosa 2%, given the likelihood of a terrorist attack in those areas.

The ARPC had a weighted average interest rate in 2014 of 3.56%.

Cyclone Larry Claims -

According to the AGA, Peter Martin, Home and Contents report page 4, Cyclone Larry in 2005-2006 resulted in gross claims of $100M for house and contents (strata claims were minor). This report included five selective insurance companies only, namely: Allianz, IAG Group, QBE, RACQI and Suncorp. I am not aware as to whether Suncorp was the Suncorp Group or just Suncorp themselves. This does make a difference, but it seems the report does include the two biggest insurers namely IAG and AAI.

According to The Final Report of the Operation Recovery Task Force for Cyclone Larry (Cosgrove April 2007) :

"We know that of insured buildings there were almost 19,000 building claims lodged with insurers. This includes homes, <u>commercial buildings, outdoor sheds</u> and the like. When we include claims, for contents destroyed and damaged, over 27,000 domestic insurance claims have been recorded to date, with an estimated total exceeding $369 million."

These losses were experienced by 25 insurers.

Since then the number of strata complexes has increased but our exercise does not include commercial insurance etc.

Cyclone Yasi Claims -

According to the AGA, Peter Martin, Home and Contents report, Cyclone Yasi in 2010-2011 resulted in gross claims of $108M for house and contents, for the insurance companies selected.

According to the JCU report completed for Suncorp (Hendersen re-released July 2015) the total domestic insurance claims for cyclone Yasi were $252M.

The rest was not for domestic claims.

Normal Cyclone Claims -

According to the AGA, Peter Martin, Home and Contents report the $60M gross claim was due to Mackay floods, leaving the normal claims due to cyclones at $20M or less for home and contents, for those companies spoken to.

For strata, I cannot find the figures.

Suggestion 1.

One of the main drivers for the ARPC strategic plan is to establish long term objectives to enhance value for money. Is it possible that the Terrorism Reinsurance Pool could "invest" in the Cyclone Reinsurance Pool at a higher return?

If the ARPC could pay for the retrocession payment, then the ACRPC (Australian Cyclone Reinsurance Pool Corporation) could pay them back with interest.

This would mean only a Government guarantee would be required for any excess, with the expectation that it wouldn't be required at all.

Suggestion 2.

I'm sure when the ARPC was started in 2003 it had to be Government financed in addition to the Government guarantee. I suspect the initial finance might have been the $400M removed from the pool in 2014 by Wayne Swan.

Any ACRPC would need enough initial money in the bank to pay for retrocession. I don't know what this cost is likely to be, so I cannot give an opinion on how much would be needed and for how many years until assets are built up and the pool can be self-sufficient but I would think the ARPC would have an idea.

Suggestion 3.

The Federal Government introduced a temporary flood levy on Australians' taxable income to fund the NDRRA to help affected communities and provide additional funding to rebuild essential infrastructure.

Something similar may be necessary.

The temporary flood levy introduced post the 2011 floods, was largely required to cover the reconstruction of roads.

Suggestion 4.

It is interesting to note that in Australia the insurance companies are more profitable than the Banks.

Insurance companies are declaring massive profits, and have done so since they "redefined" the way they calculate their premiums.

Profits of insurance companies

In 2011 Ian Moyser, KMPG insurance partner, was reported as saying (The Australian 16th September 2011) that insurance companies had *"delivered a resilient performance".* He went on to say:

- **total insurance profit had increased by 8 per cent to $3.1B** – up from $2.9B in the last year
- Gross written premiums increased by 6.7 per cent to $25.6B
- underwriting surplus increased by 10.7 per cent to $1.28B – up from $1.16B in the last year
- He said the overall insurance margin was up 14.6 per cent.

The APRA reported in 2012 that as at 30 June 2012, authorised insurers accounted for 89 per cent of the industry's **$118.2 billion** in total assets, and an increase in the industry's eligible capital base to $28.4 billion from $26.7 billion, with insurers reporting a higher level of retained profits as at 30 June 2012. The industry reported:

- **a net profit after tax of $3.7 billion** in the year ended June 2012
- this included an underwriting profit of $0.5 billion
- The industry's gross earned premium increased eight per cent to $36.9 billion in the year ended June 2012

In 2013 APRA reported the industry maintained a sound financial position throughout 2012/13.This was driven by strong profitability, particularly in the **property classes of business**. In 2012/13 the industry reported:

- a strong financial performance, with **a net profit after tax of $5.2 billion**
- a return on net assets of 17 per cent
- The eight per cent increase in industry gross earned premium to $39.9 billion during the year was largely the result of higher premiums earned in the householders class of business

On 23rd September 2014 KPMG reported:

- In the 12 months to 30 June 2014, Australia's insurers had delivered **record post-GFC profit results**, driven by earnings from **increasing premiums**
- Overall profits had increased 8.3 percent during the year to $4,958 million
- The industry's capital coverage is in one of the strongest positions it has ever been at 1.9 times the APRA minimum requirement, compared to 1.82 times in 2013

In 2015 APRA reported:

- Net earned premium for the industry in the year ended 30 June 2015 was $31.9 billion, up 2.0 per cent from the previous year ($31.3 billion)
- The industry underwriting result in the year ended 30 June 2015 was a profit of $1.6 billion, compared to a $4.1 billion profit for the previous year
- Total industry net profit after tax in the year ended 30 June 2015 was $2.6 billion
- The total assets for the industry were $121.1 billion as at 30 June 2015, an increase of $6.7 billion (5.9 per cent) from the previous year ($114.4 billion)

In 2016 it was:

- Underwriting result up 51.2% up to $2.4B (it shows as $2.2B in the next year so even the APRA can't get their figures accurate)
- Net profit after tax was $3.0B up 15.3% (however it does show in the next year as $2.9B – shame)

And, finally, in June 2017:

Key performance statistics for the general insurance industry in the year ended 30 June 2017:

	June 2016	June 2017	Change
Net earned premium	$30.2 billion	$31.8 billion	+5.3%
Net incurred claims	$20.0 billion	$20.4 billion	+1.6%
Underwriting result	$2.2 billion	$3.5 billion	+58.1%
Investment income	$3.0 billion	$2.4 billion	-18.1%
Net profit after tax	$2.9 billion	**$3.1 billion**	+7.2%

I don't have the figures for 2018.

Is it possible for the insurance companies to put a percentage of their profits every year (1%?) into a pool for use in a catastrophe?

"Companies who insure risk should be companies who share risk."

An adaption of the Australian Reinsurance Pool

There is precedence for this idea.

In 2017 net profit after tax was $3.1B.

If insurance companies, all of them, put 1% of profits per year into a central pool for claims in the case of national or regional disaster, in that year alone they would have contributed $31M. *(The amount could be matched, by Federal/State Governments.)*

We do have years without a catastrophe. The pool would slowly build up and be able to cover extreme circumstances without having a major effect on the profits of the companies.

The pool could be managed by the insurance companies or the Insurance Council of Australia or someone else. When it got to a healthy amount the companies might decide to use some of the money in mitigation, such as choosing to build levies etc. Towns could apply for grants.

Being controlled by the insurance companies themselves means it cannot be seen as a tax, just a way of mitigating their risk and preventing the peaks and troughs of insurance in Australia. AND if we aimed at grants for the future then it would be good publicity for an industry which looks dreadful at the moment and will do for many years.

Premiums would go down across Australia as the pool increased, and all natural disasters would be covered and have very little effect. Eventually the money invested in it by the Government and by the insurance companies could gradually be paid back as mitigation lowers claims cost – <u>with interest.</u>

The insurance companies would not lose the money, it would merely be invested in the pool until the pool was self-sufficient and could pay back the money and interest.

Lloyds of London works in a slightly similar way. Anyone wanting to become a 'Member of Lloyds' pays a non-refundable amount to a central pool. This pool isn't touched unless there is a circumstance where an Underwriter cannot cover their claims, then the pool is used to pay the excess. It is HUGE and has been used in the past to cover bad debts. Basically, Lloyds of London underwrites itself.

This would work in a similar way. Maybe we would get into a situation where Australian insurance companies wouldn't need international underwriters.

- People who cannot afford their insurance (mandatory or not) would benefit
- Insurance companies would benefit by removal of the peaks and troughs

- Insurance companies would eventually get interest on their investments and benefit from the mitigation projects.

- Those not currently taking out insurance due to the cost would be able to do so, raising profits for the insurance industry

- Towns where disasters could be prevented or reduced would benefit from grants

- **STABILISATION!!**

Mutual:

Key issues

Key issues for the mutual which only covers cyclones include the design of cyclone insurance contracts, for example, how to avoid confusion or gaps in cover for consumers who would have to hold two policies, and whether pricing should be flat to cross-subsidise people at highest risk, or risk-based to encourage mitigation. Some issues relate to management of sales and claims. Conducting these 'in house' would be costly, but may increase community identification with the mutual. Questions around governance and regulation include whether an entity should be a mutual, potentially a discretionary mutual, or statutory body, with each having implications for the financial risk to Government or, following Government exit, shareholders and customers.

I have also had a meeting in Sydney with Nick Kirk from Regis Mutual, their own opinion was this solution would be much more difficult to implement.

At the time it was suggested a combination of a reinsurance pool and a mutual could work. However, implementing 2 options could bring double the amount of problems, without double the amount of benefits.

A Mutual is more difficult to understand. I think it is best to describe it as a type of company set up by the members, paid for by the members, for the benefit of the members for a particular reason – in this case natural disaster insurance.

A mutual is therefore owned by, and run for the benefit of its members - it has no external shareholders to pay dividends to, which is a great benefit.

Cyclone damage in Australia supposedly costs an average of $632M annually.

If a Mutual is to be set up to cover cyclone insurance only, then we are creating difficulties as there will need to be duplicate processing and handling of policy information and claims. I think the only way a Mutual could work would be if it was to cover all insurance. However, that would put it into competition with any existing insurance company.

Any Mutual would have to work in conjunction with existing insurance companies and be sold through those companies as it would only offer cover for natural disasters not for every day losses, so any policy or claim would have to be processed by an existing insurance company. So, a premium would be paid but shared between the mutual (for the natural disaster cover) and the other insurance company.

The Mutual would probably look at paying out the first $? Of a cyclone claim.

The problem arises when an insurance company is already in the market such as Suncorp, do they have to use the mutual and share their premiums or can they continue to offer their own full insurance?

Advantages and Disadvantages

The following focus questions 6-9 were specifically about a cyclone cover Mutual.

Focus question asked in a former inquiry:

6. *What are the advantages and disadvantages of a cyclone mutual insurer, supported by the Government, with the objective of lowering consumer premiums for home, contents and strata title insurance for people experiencing affordability problems due to cyclone risk? What form of Government support would likely be required?*

Advantages

- Reduced premiums
- All risks covered by one or other of the policies
- Could bring some companies back to the market

Disadvantages

- New product
- New procedures for existing insurance companies
- Integration with existing insurance companies
- 2 policies
- Those insurance companies already in the market share their premiums, so may leave the market
- May require different options for different companies depending on what additional cover is offered
- Complicated
- 2 claims offices
- Will require additional guarantee so implementing a combined solution rather than just a Mutual

Government Support

Will be required for:

- Set up
- Additional guarantee

Structure

Focus question asked in a former inquiry:

7. *What would be a suitable organisational and governance structure for a mutual insurer — a discretionary fund or an APRA regulated entity?*

APRA – Australian Prudential Regulation Authority.

I prefer the APRA, actually I prefer anything except the ICA who have proved themselves unable to regulate themselves or their members.

Cap

Focus question asked in a former inquiry:

8. *What are the advantages and disadvantages of putting a cap on the payout from the cyclone policy offered by a mutual?*

Advantages

- Maximum risk to the Mutual is established early
- Maximum risk to the Government is established

Disadvantages

- Insurance companies don't know the limit of their risk
- Top up insurance required or the claim returns to the insurance company for settlement

Support Reduction

Focus question asked in a former inquiry:

9. *When and how could the Government reduce support for a cyclone mutual insurer?*

I believe any option implemented will need Government support for 10-15 years.

However, as mitigation projects are undertaken, the risk should lower, and the need for Government backing will reduce. So, the "when" depends on the mitigation projects.

Private Mutual

I understand from the Hon Warren Entsch MP, member for Leichhardt, there is a mutual model awaiting a licence from APRA. This has been in the pipeline for at least 18 months. This mutual, I understand, would look at strata properties.

It was originally called SWARM but has since been renamed to Pic-Nic. I don't know much about it as it is highly confidential but I understand several ex senior figures from various insurance companies are involved. It is said to be a non-profit alternative form of insurance which suggests it's based along the lines of the USA company Lemonade.

Townsville Bulletin 20 June 2018

Power to the people as alternative insurer prepares to launch

ALICIA NALLY

AN alternative insurance provider is set to be launched next week in an effort to combat the astronomical price of home and contents insurance in the North.

Leichhardt MP Warren Entsch said the final checks and balances on a mutual organisation were being completed, which would be owned by northern Australian policy holders.

The news comes as the Australian Competition and Consumer Commission released an update on its Northern Australia Insurance Inquiry this month. About 150 people participated in eight public forums held in Townsville, Cairns, Rockhampton, Mackay, Darwin, Alice Springs, Broome and Karratha.

The summary revealed the great emotional toll the rising cost of home and contents insurance had on residents, with some facing bills of up to $10,000.

Submissions by the National Insurance Brokers Association showed premiums in northern Australia now reflected the true cost of risk but there was little choice in insurers. The group also claimed supplying insurance in North Queensland was "not very profitable".

Mr Entsch said little competition in the northern market meant profits would have to be considerable.

He said the new insurance entity would pay dividends in the form of a reduction in premiums.

"Insurance companies are there for the shareholders. This is where the model is broken," he said.

"They'll always argue the way to fix it is mitigation.

"They argue they're not making money but the profits just keep going through the roof."

If at all possible, I would suggest getting the contacts from Warren and talking to the people responsible for the new model, as I have no information on what has been suggested or how it works.

In March 2015 the Cairns Chamber of Commerce also suggested the idea of a mutual which would be "owned by the people of North Queensland for the benefit of the people of North Queensland" to provide affordable insurance and availability for private households, bodies corporate, strata title owners and small to medium businesses.

The, then, incoming chamber president Sam Marino said the scheme would not be competing with existing insurance companies but that the mutual would work with existing companies by providing catastrophe cover. Conventional insurers would continue to provide traditional cover, such as fire and theft, while natural catastrophe cover would be dealt with via a mutual structure owned by the community of Northern Queensland and controlled and administered by an entity established by the Cairns Chamber of Commerce.

Unfortunately, it didn't go ahead.

Back in 2017 The Hon Warren Entsch MP, on behalf of Coalition MPs in Queensland, submitted a model for a mutual along with Regis and reinsurance firm Willis Re and it was assessed by the Department of Finance and Treasury.

Under the suggested scheme, the Federal Government would underwrite a new mutual, to be managed by Regis, which would be "owned" by policy holders, to provide basic cyclone coverage for residents in Northern Australia. However, the ICA and its members didn't like the idea of any Governments interfering in the market.

Under Mr Entsch's model, all residents of Northern Australia would be required to take cyclone insurance from the new mutual as a basic policy and then add to their coverage through private insurance.

I can see problems with this but at least it was another start. However, the Federal Government chose not to go down this path.

NAIP – Northern Australian Insurance Premium Taskforce

A reinsurance pool and mutual option have been covered in detail by the Northern Australian Insurance Premium Taskforce which was established in 2015.

My submission to the Taskforce details the problems I envisage with both options but I have always favoured the reinsurance pool over the mutual, as I see more potential problems with the mutual, namely:

1. At what point does the natural disaster coverage step in?
2. If you end up with 2 policies how are claims to be handled?
3. Who handles the claims?
4. Who sells the policy?

The submission to the NAIP Taskforce by Regis Mutual is also worth reading as even they see problems.

The other submission which should be considered is the one from Allianz who suggested the introduction of a reinsurance pool would not be difficult.

Allianz

In the Pivot North Report, tabled in the Federal Parliament late 2014, Allianz Australia were quoted as follows:

*4.100 Allianz Australia highlighted the weather risk component of insurance costs in North Queensland, particularly relating to floods and/or cyclones, stating that 'average premiums between North Queensland and elsewhere involving multiples of 2.5 times reasonably reflect differences in risk'. Allianz Australia noted, however, that 'this conclusion becomes harder to sustain in light of evidence that **some homeowners face premiums of ten or fifteen times those of other Australians**', and that 'at such extreme levels, premiums cease to act as an appropriate price signal'.107*

4.101 As a means of spreading the risk from weather events in North Queensland, Allianz suggested a reinsurance pool, explicitly subsidised through a levy, similar to that provided by the Australian Reinsurance Pool Corporation, which manages terrorism related risks. Allianz noted that:

The provision of subsidised reinsurance for cyclones and floods would remove the high level of uncertainty associated with insurers' exposure to these events and the concentration risks that limit their appetite for business in areas such as Nth Queensland.[108]

Allianz also suggest a reinsurance pool be created and it is interesting to note that they have subsequently bought TIO, but do limited property insurance business in North Queensland.

My summary of the NAIP Taskforce Report

My opinion of the data used in this report is not very high:

- The modelling to get future claim predictions has been done over 10,000 years;
- The calculation of the cyclone component is extremely questionable and the resulting figures do not make logical sense with Weipa having a lower cyclone component than Townsville;
- The cost of reinsurance has been overestimated if compared against **actual figures** from the ARPC;
- Strata data was obtained from the Internet where you can't get strata quotes online unless you use the Suncorp Direct product, which only quotes for 10 or less units valued at $5M or less;
- and the suggested industry retention per event of $100M is far below where it should be with even Allianz recommending an industry retention of $1.5B per event.

In short, all calculations have been done on suspect base figures and cannot be relied on. The Taskforce have done their best with what can only be considered as "dodgy" figures but I am surprised they did not think to query the cyclone component results as they are glaringly suspect in my opinion, or use actual reinsurance costs, and set the industry retention amount higher as recommended.

There are some massive assumptions and questionable figures as far as I am concerned:

a) The reasons given for the increases don't tie up with what the consumers have been told over the years

b) Future estimates of losses are unpredictable, especially when they've been calculated over **10,000 years**

c) The difference in predicted losses between the 3 modellers is **$13B**. (page 34). Hardly surprising over 10,000 years

d) The figures for cyclone component are <u>highly suspect</u>. Finity Consulting notes the challenges in estimating the premium pool for home and contents insurance from <u>online data</u> and the limited availability of data for strata building insurance across Australia. **I'm not surprised, most strata policies including ISR policies can't be quoted or purchased online**

e) Multiple people think Insurers could help fund mitigation projects

f) What proportion of damage is due to cyclone-related flood damage?

g) There is no mention of a watchdog of any kind although it was mooted on various occasions

h) Resilience rating tools for strata have been developed but the front-end system is not user friendly and has been designed with limited (if any) input from the user (customers). Also, the report must be given to the insurance companies even though ALL new systems have bugs and there are no dispute resolution procedures
i) Very few body corporate managers (BCM) in Qld or anywhere else in Australia hold an Australian Financial Services Licence, issued by ASIC, to provide advice on financial products, including insurance policies, whereas all Brokers do. Any BCM finding insurance should hold an ASIC licence
j) How much is the catastrophe reinsurance for policies in northern Australia? This figure is unknown
k) The annual increases in premium rates include years where premiums fell (page 20)
l) The AGA reports, particularly strata, do not contain up-to-date information as Suncorp refused to give him the data for the years after his original report was written (2012), and Suncorp are the number one insurer in Queensland
m) The cost of reinsurance has been over estimated if compared with actual costs from the ARPC. This maybe due to the expectation there will be more claims than with the terrorism pool
n) An industry retention of $100M per event makes no sense, this is much too low. Allianz submission recommends an industry retention of $1.5B per event (page 6 and page 13 of their submission) *would remove insurers' exposure to around 80%* of the insured losses from cyclones. **The figures need to be reworked on a higher retention amount**
o) The Taskforce does not seem to have produced a figure of the average cyclone reinsurance cost currently paid by insurers, which I would have thought was necessary for the calculations regarding a cyclone reinsurance pool

Buried in the back of the taskforce's report is an assessment by actuarial and insurance consultant Finity (one of the best in the business according to the ICA) who estimates that over the past 20 years in current values people in northern Australia have paid out $480 million a year in home, contents and strata insurance cyclone cover, while making $120 million a year in claims. That provides a long-term loss ratio of just 25 per cent which is very low by industry standards.

The ICA claim their members have been paying out $1.40 for every $1.00 received. It has been difficult to identify why there is such a difference in opinion.

However, this was not the claims cost and loss ratio used by Finity and the taskforce. Instead, Finity adopted an estimated claim cost of $290 million predicted by modelling provided by the taskforce.

A detailed analysis or the report can be found in annexure A.

Mitigation:

It is clear proper risk assessment needs to be undertaken so that risk is assessed rather than assumed. It is also very clear that mitigation needs to be looked at on a property by property basis.

The cost of this mitigation has to be considered and something needs to be put into place to ensure that when mitigation has taken place it is recognised by insurance companies because the experience at the moment is that they are ignoring any reports – eg Magnetic Island.

When I met with CGU and the NRMA years ago I was told of CGU's plan to do a mitigation report on all the properties they insure and I believe they have been able to reduce some premiums by 15%. However, when your insurance has gone up 400% you need a reduction of 75% and not just 15% to get back to the original premium, or close to.

Not all risks can be mitigated, for example, North Queensland is a high cyclonic area, as is North WA, and therefore there are limits to the risk reduction that can be achieved.

We need direct investment in mitigation infrastructure projects. This could be funded by local councils (especially if it's their fault a property is in danger due to ignoring their own town planning rules) and

State and Federal Governments possibly via levy collection. The insurance companies themselves could help, as Suncorp has already offered, after all it is their money we are saving.

The current arrangements for funding natural disaster mitigation, resilience and recovery are not effective. The lack of mitigation is resulting in increased levels of vulnerability and exposure to the risk associated with extreme weather events and their impacts. There are more and more people choosing either not to insure or to underinsure due to cost. This ends up needing increased government post-disaster funding.

"Post-disaster funding results in stress on uninsured individuals, negative media coverage for insurance companies, Councils and Governments, and unexpected pressure on budgets through the Natural Disaster Relief and Recovery Arrangements (NDRRA)."

I believe in mitigation so long as it gets recognised by insurance companies through a reduction in premiums. If we deal with mitigation today it will provide a sustainable way to reduce risk and insurance premiums.

According to the Actuaries Institute, the *Building our Nation's Resilience to Natural Disasters* White paper outlined how a program of resilience expenditure of around $250 million a year to 2050 would ultimately generate budget savings of more than $12 billion and Australian Government expenditure on disaster response could reduce by more than 50%.

Encouragement

Focus question asked in a former inquiry:

10. *What can be done to encourage greater efforts to mitigate the risk of damage from cyclones? Are there impediments to insurance premiums being responsive to mitigation action by property owners?*

No claims bonus

If a property hasn't made a claim then premiums should not increase over an agreed and monitored percentage.

The fact a property has not made a claim doesn't seem to have influenced increases in premium.

There are no claims bonuses for all sorts of insurance policies, but not for building insurance. There should be a ruling that if a property has not made a claim in the past 12 months then the insurance premium should not go up (maybe come down) over a certain agreed amount - CPI.

Advantages:

- Owners would think twice before claiming if they knew it would affect their next insurance premium
- Prevent owners abusing the system
- Reduce the outlay of insurance companies

Example:

One complex built 6 years ago has not had a single claim in the 6 years but still had an increase in insurance premium of more than 200%.

In addition, the present system is open to abuse:

> *'When Yasi hit Mission Beach we were renting a small two bedroom town house that was one road back from the beach. We went down to clean it out so we could give it back to the owner. It hadn't sustained any damage so we wanted to free it up for others that were homeless.*

> *I scrubbed that property from top to bottom and because we are in property we are very aware of what is damage and what is just wear and tear. The only water that entered the house itself was through some louvre windows on the side and this went onto the solid timber stair case. I am not an insurance assessor, but I will say in my opinion there was nothing really damaged in the property.*
>
> *I have since been told this owner got a brand new roof, the entire unit repainted internally, new kitchen, new bathroom and repainted externally. There will always be some that will take advantage of the situation – worse still the insurance companies allow it.'*

Impediments

Mitigation must be optional and standard.

There is no guarantee any mitigation undertaken will be recognised by the insurance companies.

If insurance companies set their own mitigation rules, as with Suncorp:

- No two companies will agree on what they should be, so if you change insurance companies then you may have to do more mitigation
- The expense has to be met to do everything until reductions are applied

Assessment

Focus question asked in a former inquiry:

> 11. *What are the advantages and disadvantages of establishing an independent assessment process to determine the vulnerability of a house to cyclone damage and to verify what mitigation work has been undertaken? How could such a process be established?*

This must be **optional** not mandatory, otherwise it could cause all sorts of problems.

Advantages

- Risk is assessed rather than assumed
- Any report belongs to the owner of the property and can be sent to any insurance company for assessment
- Assessment can be proved and verified
- Mitigation can be discussed and planed
- Very "hands on"
- Not coloured by the opinions of insurance companies who often can't agree

Disadvantages

- Cost of the report
- Property owners may not be able to afford the mitigation measures
- Insurance companies may take little or no notice of the reports, as has already happened
- Property owners may not be allowed to undertake the mitigation measures (such as listed buildings)

Establishment

- Expand the project with JCU and David Henderson

Last word: According to the Allianz submission to the Taskforce: Under accounting and taxation rules, insurers cannot create multi-year catastrophe reserves to cushion the financial impact of future large events. Any unused funds insurers have allocated for natural catastrophe events in a given accounting year cannot retained and held in reserve for future years, but must be recognised as a profit of that year.

This point has not been picked up by the Taskforce and maybe a change to the rules would allow the insurance companies to build up their own pool of reserves resulting in a reduction of peaks and troughs in premiums.

Insurance company's mitigation.

I have also suggested mitigation be expanded to cover mitigation an insurance company can look at as well to lower its claims. Some people do claim more than necessary, or even when they don't need to, because the premiums are so high, and they can. Maybe a guaranteed no claims bonus, the same as in car insurance, would make people think twice.

Insurance companies have escalated their premiums partly because of the cost of claims, but people don't often claim a specific amount. They put in their damage details, the insurance companies get quotes, and then choose the quote they want to accept. It is this quote which becomes the claim amount.

There have been a number of cases where and I'll use an example: a $9,000 local quote for repair has been turned down for a preferred supplier's quote of $31,000. The fact the preferred supplier has to come up from Brisbane, have accommodation etc. doesn't seem to be taken into account. If the local quote had been taken then the claim amount would have been much less.

Government Subsidy

With regards to the Government subsidising premiums above a certain amount, I don't like the idea but it has to be considered as it has been suggested.

I'm applying this to all policies as it is not possible to work out how many of the properties are in Northern Australia.

The Actuaries Institute state 4% of the population is 320,000 households.

The Australian Bureau of Statistics state "Full-time adult average weekly ordinary time earnings $1,477", so 2 weeks is $2,954.

If the Government agreed to pay the excess premiums above two week's average Australian earnings, and provided grants for those properties to undertake mitigation it would affect 1.12M households or 14% of the population.

According to the Actuaries Institute (Actuaries Institute's response to the Productivity Commission's Issues Paper on *Natural Disaster Funding Arrangements* released for consultation in May 2014).

10% are paying 2-3 weeks average salary - on average $3,692.50 - 800,000 households
3% are paying 3-4 weeks average salary - on average $5,169.50 - 240,000 households
1% is paying more than 4 weeks average salary (up to an unknown figure) - guesstimate only - as the maximum <u>lowest</u> quote I have come across for a unit is $13,000, and for a heritage listed B&B is $15,000, I've taken $15,000 as the top mark minus $5,908 (4 weeks) as the bottom mark,
_ on average $10,454 - 80,000 households

This equates to subsidies of:
$3692.50 - $2,954 = $738.50 x 800,000 = $590,800,000
$5169.50 - $2,954 = $2,215.50 x 240,000 = $531,720,000

$10,454.00 - $2,954 = $7,500.00 x 80,000 = $600,000,000

This is without the costs of mitigation and is not practical.

Even if we looked at subsidising above 3 weeks average salary (or $4,431) you would be looking at:
$5169.50 - $4,431 = $738.50 x 240,000 = $177,240,000
$10,454.00 - $4,431 = $6,023.00 x 80,000 = $481,840,000

This is still not practical.

Risk Rating – Parity

Extend JCU Mitigation Reports To Produce A True Risk Rating Score

If proper risk assessment is undertaken and mitigation reports produced with a given risk rating for each possible disaster claim and the property is given a **final risk rating** based on set parameters, based on their structure and including their risk of being damaged due to bush fires; cyclones; floods; storm surges; hail etc. Then it would be simple, as all buildings with the same risk rating should be quoted the same premium by a company NO MATTER its location, which becomes irrelevant.

Simplified Example; Seastar may have a 10 rating for cyclones, a zero rating for floods, a 2 rating for bush fires (I suppose it could happen but it never has), a zero rating for storm surge, a 1 rating for hail (no hail storms in the tropics). This would result in a final risk rating of 13. We should be quoted the same premium as any similar property with the same final risk rating by an insurance company NO MATTER where it is. Then they could take into account the pool, lift, playground etc. and add to the base premium accordingly.

Parity for all buildings with the same risk rating.

Just because a complex undertakes a proper risk assessment doesn't mean any notice is taken of it.

Thank you Margaret for keeping us up to date.

As a matter of interest, I am an owner of a townhouse on Magnetic Island.

I followed your previous advice as to who we could contact to possibly get better building insurance terms.

The Brokers recommended & contacted couldn't actually get us terms. I acknowledge that every location has its differences and preference by firms.

The outcome was that in the end we stayed with our current broker OAMPS and they found that only two insurance companies would offer building cover for our $6m+ property. (At least there were two)
They were Vero & Longitude. Vero was our current insurer and the annual premium was some $5000 less than Longitude. So we stayed with Vero.

We also had a Vero Risk Consultant, Corporate Portfolio & Underwriting Management, visit our site to do a risk survey assessment just as our premiums were due. He went over the full site and confirmed there was no further action the Body Corporate Executive could take to mitigate risk. He was also made aware that we had no claims as a result of Cyclone Yasi and that the building was built in the last 8 years to cyclone resistant specifications. Our building is also located on the opposite side of the island from where the direct impact of storms hit, noticeably Yasi.

Yet our premiums had gone up over the last 4 years from $10,000, to $17,000 to $48,000 to $52,000 odd this year. Concern was expressed that our specific risk position was not fully

appreciated by the Underwriters and we would wish for this feedback to go back to the firm and be considered for next year's renewal premium. We will see what happens.

Kind regards,

The report was ignored for the next year's quote, their premium quote from Vero went up again to $56,880. They are now insured with QBE at $52,635. So, the unit owners have gone from $770 per unit to over $4,000 per unit.

Reinsurance penalties

We have been told by SUU the main reason why the premiums have increased so dramatically in north Queensland is that reinsurance penalties have been applied to this area due to cyclone risk and damage. I am told the reinsurance penalties make up 6-8% of the current premium. However, I believe approximately 45% of the 6-8% is being applied to the north Queensland market. We need to look at spreading the reinsurance penalties equally over the whole of Australia and not just the areas currently penalised.

Australia constantly has disasters, from bushfires and drought to floods and cyclones, there are going to be constant reinsurance penalties. If every penalty was apportioned across the whole of Australia instead of just in the area penalised you would remove the peaks and troughs.

Advantages:

- There would be a much better balance of premium increases with no particular area being penalised.
- Australia would have the ability to continue development in emerging areas which fall within the 'penalty zone' (e.g. North Western Australia).

Additional Thoughts

Regulatory Entity

It is clear to me the Insurance Council of Australia is not capable of regulating or indeed dealing with its own members. Does it even consult with them?

I truly believe that if the ICA had recognised in 2011 that a crisis was occurring (only one company offering insurance for strata in north Queensland) and had sat down with its members to discuss what the then State and Federal Governments could do to help the situation, or had even worked out a solution for themselves and put it forward for consideration, then we wouldn't be in this situation now.

They didn't. In fact the ICA still refuse to admit there is a problem, or that there ever has been a problem.

Insurance is not a luxury, it is a necessity.

So as with fuel prices, energy prices, etc the insurance industry needs a watchdog, a watchdog that not only barks but bites.

This should be a priority for the Federal Government to cover the whole of Australia.

Affordability

The Institute of Actuaries note in response to the Productivity Commissions issues paper on Natural Disaster Funding Arrangements (covers the whole of Australia):

"Insurance is becoming unaffordable for some parts of the community, especially those living in areas at high risk of natural perils such as flood and cyclone and to a lesser extent bushfire. The following

chart shows that the cost of building insurance premiums for 320,000 households (or 4% of total households in Australia) is estimated to exceed three weeks of average earnings."

These figures are from 2013, I do not believe they are improving.

Australian Bureau of Statistics

6302.0 - Average Weekly Earnings, Australia, Nov 2014

Table 1: Average Weekly Earnings, Key Figures, Australia, November 2014

	November 2014 $	Nov 2013 to Nov 2014 % change
Trend(a)		
Full-time adult average weekly ordinary time earnings	1 476.30	2.7
Full-time adult average weekly total earnings	1 539.40	2.7
All employees average weekly total earnings	1 128.90	1.3
Original		
Full-time adult average weekly ordinary time earnings	1 477.00	2.8
Full-time adult average weekly total earnings	1 542.40	2.8
All employees average weekly total earnings	1 128.70	1.3

I don't know how to define what is affordable but I know what isn't.

Cost Of Recovery

In the words of Bernadette George, Social Planner MUP BA (Soc Sc) MPIA Fellow PIA:

Turning, then, to the question of equitable apportionment of cost recovery:
Given it is the States which have the Constitutional power to make decisions about land…and, therefore, that the land use planning (and development assessment) system is a State responsibility,

therein lies the accountability mechanism for ensuring all new development and infrastructure design and construction is only allowed in appropriate locations and designed to best practice standards.

I believe if a building has suffered major damage due to flooding or storm surge which could have been prevented if the Town Planning Act current at the time of building approval had been followed, then the Council in question should pick up the bill. There are definite cases where Council have knowingly allowed, and approved, building to occur on inappropriate land.

I suggest no future developments are allowed in areas of unacceptable risk and building standards are updated to reflect best practice and extended to reflect property damage where appropriate. This does not prevent development in a known flood or storm surge area, just make sure the ground floor is for car parking, with accommodation staring above flood level, or that buildings are raised.

Lemonade

An American Solution - Lemonade.

Lemonade is a new kind of home insurance company operating in the USA. It operates almost entirely online with no human brokers or underwriters, and uses algorithms and artificial intelligence so that everything from signing up to getting a claim paid takes minutes, not days. Lemonade says it erases the tension that exists between insurance companies and their customers because it can pay out claims without having any effect on its bottom line.

Insurance is supposed to offer us peace of mind and financial aid during some of our most vulnerable moments, but it doesn't. Insurance companies don't want to pay out because if they don't pay claims then they get to keep the money.

What Lemonade does is collect premiums, then uses a fixed 20% to pay for its administration and any profit after claims gets donated to a charity of the customer's choosing. This is intended to change the dynamic – a not for profit insurance company.

Since they don't get any additional benefit from refusing claims, they hope it brings out the best behaviour in the clients, because when you're making a claim you're reminded that charity which is going to lose out if the claim is exaggerated, not the insurance company.

The business model attracted excitement from investors and the startup's $13 million seed round was the largest of any U.S. company in 2015, according to Bloomberg. Sequoia Capital.

How it works.

The company offers homeowners and renters insurance. Algorithms calculate the premium. For many renters, the monthly premium comes out to the company's minimum of US $5; for homeowners, the price starts at US $25. Higher coverage costs a couple dollars more.

When you file a claim via the app, you record a video of yourself explaining the loss. Lemonade's logic: Studies have shown that people are less likely to lie when looking into a mirror. The app makes you sign an on-screen pledge of honesty before placing your claim; before you hit Submit, it reminds you explicitly that the money paid for your claim will be taken not from Lemonade, but from the charity you'd previously selected.

May 2018

Lemonade launched what it calls the world's first open-sourced insurance policy.

According to a news release, the policy is open to editing from the 'wisdom of the crowd', turning the traditional way of crafting an insurance policy on its head. Because the policy is open source, it's not copyrighted, which means the community can edit it and all of Lemonade's competitors have access to it, too. The policy is also written in English and is intended for US renters, but the company plans to expand it to cover other lines, languages, and legal jurisdictions.

They are determined to drag insurance into the 21st century, kicking and screaming.

The goal is to make insurance “simple, fair, and approachable to everyone,” said Shai Wininger, Chief Lemonade Maker and co-founder

Lemonade’s aim is to take the company global.

MY Proposal

Summary

I have expanded an infant idea I put to the NAIP Taskforce[1], namely:

- To develop a proper way to risk assess a property, determine resilience and identify mitigation projects, if appropriate
- To consider an alternative idea which identifies possible damage due to a natural disaster and calculates the cost of rectifying that damage and therefore, identify risk
- To develop a risk rating score which can be applied to all properties
- To develop a system to benefit all properties in Australia and not just Northern Australia, as no-one should have to go through what the people of North Queensland have gone through since 2011
- To implement an Insurance Industry Watchdog to ensure <u>risk assessment and property resilience is taken into account</u> when determining premiums

The proposed project would involve:

- James Cook University (JCU) Cyclone Testing Centre, Townsville
- Building Consultants
- Consumer Representative

The project would expand on existing work already undertaken by JCU Cyclone Testing Centre in conjunction with the ICA and Federal Government, and could result in premium parity throughout Australia.

Important points for consideration:

1. According to IAG[2], the biggest insurance group operating in Australia, 30,000 households are dropping out of the insurance market **<u>every year</u>**, and the crisis is affecting **<u>3,000,000</u>** Australians. They are concerned, as they should be, and recognise a solution is required not just for North Queensland but for Northern Australia as a whole, and possibly the whole of Australia

2. 14% of Australians pay more than 2 weeks average salary on their insurance[3]

3. I keep regular communication now with Northern WA and the Indian Ocean Territories who also have serious insurance problems. North WA is in a similar situation to NQ with premium increases of over 330%, including high premiums for areas not in a cyclone zone[4]

4. The TIO (Territory Insurance Office) was sold to Allianz in February 2015 and now the NT are experiencing huge premium rises[5]

5. Solutions should apply to any permanent property you can legally live in no matter whether owner occupied or tenanted

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[1] NAIP Focus Questions Response 22nd August 2015 – Margaret Shaw
[2] IAG own: CGU, NRMA, RACV, BUZZ, SGIO/SGIC, SWANN, SUU, WFI, LUMLEY, COLES
[3] Actuaries Institute's response to the Productivity Commission's Issues Paper on *Natural Disaster Funding Arrangements* ('discussion paper') released for consultation in May 2014. *"Insurance is becoming unaffordable for some parts of the community, especially those living in areas at high risk of natural perils such as flood and cyclone and to a lesser extent bushfire.*
[4] Study on insurance and banking in the Pilbara August 2015
[5] TIO price backlash January 18, 2016 1:39pm CRAIG DUNLOPNT News

6. The terms of reference of the Taskforce very specifically mentioned "cyclone risk". I think it would be a waste of time to come up with solutions which couldn't in the future be expanded to include other disasters such as floods, earthquakes, tsunamis or bushfires because "a solution that cannot be expanded, if required, is no real solution at all"[6]

7. Business insurance in North Queensland has risen by up to 2,544% in a single year. Over 51% of businesses in Qld have reported decreased profitability in their everyday operations as a result of rising premiums. Another 26% reported decreased investment as a result of higher insurance costs[7]

8. *"High insurance premiums can contribute towards lower consumer consumption and reduced levels of confidence. Further, they will contribute to higher prices for goods and services in the region. They are likely to discourage investment, particularly in areas identified as high risk, as well as discourage people moving to these areas. Consistent with this, data from the Cairns Regional Council shows a significant decline in both employment and output in the Cairns building construction industry between 2008-09 and 2013-14."*[8]

9. Business insurance in Mackay (North Queensland) is higher than even Port Hedland (Far North WA)[9]

10. Rural insurance is now almost impossible to get with only 1 company quoting[10] that being Elders owned by QBE, putting an extra strain on the debt of farmers and graziers alike

Expansion of work already undertaken and paid for.

The ICA and Federal Government have already undertaken projects in conjunction with JCU Cyclone Testing Centre, Townsville, to identify where most cyclonic damage takes place and how it is caused.

I have been talking to ABSCAN Building Consultants. ABSCAN provides Insurance Valuation Reports for most of the Body Corporate Managers in Townsville and are experienced and recognised Building Consultants. My initial meeting with them was on 3rd March 2016. They have already been involved with Professor John Ginger of the JCU Cyclone Centre and we had a meeting with all interested parties including Dr David Henderson of the JCU Cyclone Centre. I subsequently had a further meeting with ABSCAN on 7th March 2016 in Townsville and have kept in contact with them.

A couple of options have arisen:

1. **System already developed**

It seems as far as <u>strata properties</u> go, the JCU Cyclone Centre has already designed, detailed, produced and tested a risk assessment product/checklist which results in an overall rating.

It consists of 3 areas: building assessment and rating; storm surge and flooding rating; stupidity rating. Yes, they have a complete section on whether there is pool furniture, balcony furniture, sails etc. and what would happen if they were left out.

After development, engineers, building consultants etc. go to a strata property tick off their checklists and produce a building rating. The system has been developed with consideration to insurance companies and their systems so it fits in with current processes.

Personally, I can't see it, unless he's only thinking of large complexes. There are no current processes as far as I know (except RACQ and Suncorp itself) that take into account a building's resilience as defined by anyone.

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[6] Margaret Shaw
[7] Chamber of Commerce and Industry Queensland July 2014
[8] NAIP Taskforce interim report August 2015
[9] Study on insurance and banking in the Pilbara August 2015
[10] Andrew Jensen, Charters Towers 2016

Dr Henderson estimated it would take a qualified person 1 – 1 ½ hours to complete and probably cost around $1,200 but the report would remain the property of the complex. This hasn't actually happened as if a report is produced it has to be given to the insurance company for consideration – there is currently no dispute resolution.

The system also includes education for "experts" to be able to use the system.

This is the Rolls Royce of systems, in fact it's the Rolls Royce of Rolls Royce of systems, whereas ABSCAN is suggesting a Toyota.

Alternative proposed system

Despite what we understand the insurance companies are telling State and Federal politicians, experienced and qualified building consultants assure me they can provide a reliable and quality **Cyclone Damage Risk Assessment** (if a category 5 cyclone was to hit this property, what would the damage likely to be and what would it cost to repair it) for each dwelling, or building, based on a simple checklist, upon which insurance companies can calculate the cost of the Building Insurance which more appropriately reflects the risk[11].

Currently, insurance companies do not know what they are insuring (ABSCAN) - "Currently risk is assumed and not assessed!!"[12]

ABSCAN believes things should be a lot simpler and rely on science, actual building and actual location. By the way this company uses drones to examine rooves.

ABSCAN argued the "stupidity" section as designed by JCU is useless and everything else is too complicated. I agreed with them on the stupidity angle up to Warren Entsch's 4CA interview where he said the ICA say the majority of claims come from things like pool furniture – not looking so stupid after all.

After more than two hours of the meeting both parties agreed a risk assessment checklist resulting in a risk rating for a property was not only feasible it was necessary **so long as** there was some way to ensure the insurance companies would take notice of the results.

The question is which of the 2 proposed options we go with, if we go with either.

Either report could lead to parity in the industry.

For strata properties these reports not only define what mitigation a property may require but also which properties **do not require** mitigation, i.e. a high proportion of the newer buildings. This information should be used by insurance companies to reduce the premiums for post 1982 properties, those not covered by the suggestions of the ICA and Suncorp[13] who particularly specify pre 1982 buildings, owner occupied, and the owners on low income. These stipulated restrictions do not offer benefit, or help, to post 1982 properties built to cyclone standards experiencing unaffordable insurance premiums. Neither do these restrictions bring any help or relief to tenants, a lot of which rent pre 1982 properties, as non-owner-occupied properties have been ignored. This means there is no ability for Landlord's to pass back savings on insurance in the form of lower rents. According to Property Managers in Cairns rents have increased by up to $40 per week due to Landlord's passing on their insurance costs[14] with some lower income people now spending more than 50% of their income in rent.

Catastrophe Cover:

In the event a Body Corporate decided to spend thousands of dollars mitigating their property against cyclone damage, it should be with the full knowledge of the insurance premium deductions and other benefits that would result[15]. I totally agree.

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[11] Stephen Malcolm Managing Director ABSCAN
[12] Margaret Shaw
[13] Build to last, A protecting the north initiative – Suncorp 2015
[14] Linda Tuck – Property Development Ladder, Cairns
[15] Stephen Malcolm Managing Director ABSCAN

Insurance companies add up to 35% catastrophe cover to Replacement Building Insurance Valuations for strata properties, apparently included for higher damage rectification costs by contractors due to the high volume of work and, loss of rent/temporary accommodation costs.[16]

If a house or strata complex was made almost 100% resilient to a peak design tropical cyclone event (which insurance companies and JCU engineers obviously believe is possible), or the properties are recognised as not requiring mitigation projects, there should be no Catastrophe Cover applied to the Insurance Valuation. This is an automatic reduction in premium cost, particularly for newer properties.

Expanding the checklist/report after development

After the initial development of the mitigation checklist (let’s call it that to keep the ICA happy) I suggest we expand the concept to produce a true “risk rating” score[17].

Once the mitigation checklist has been produced and is in use, then we can look at expanding the concept to deliver a complete risk rating score for a property. This risk rating should be based on the perceived damage which could occur, and actual risk to a property.

If proper risk assessment is undertaken by use of the ‘mitigation checklist’ and risk assessment reports are produced with a given risk rating based on the likelihood the property would sustain damage due to a natural disaster then all properties with the same risk rating should be quoted the same base premium by an individual insurance company.

Then adjustments could be added for pools, lifts, playgrounds, business interruption etc.

In this way a property would get a final risk rating based on set parameters, their structure, and including their risk of being damaged due to bush fires; cyclones; floods; storm surges; hail etc. It would become simple, since all buildings with the same risk rating should be quoted the same base premium by a company NO MATTER the location of the building, which has become irrelevant.

Parity for all buildings with the same risk rating throughout Australia!!

The expansion of the Damage Risk Assessment/mitigation checklist to include a full risk rating could be undertaken by the JCU Cyclone Testing Centre in conjunction with Building Consultants and a Consumer Representative.

The cost and feasibility of this is yet to be determined but, if feasible, should not be excessive.

Once we have a risk rating in place then competition should come back into the market as there will be no reason for an insurance company to not insure in Northern Australia since the properties will be fully (and properly) risk assessed, as would other properties in Australia.

[16] ABSCAN Building Consultants, Townsville
[17] NAIP Focus Questions Response 22nd August 2015 – Margaret Shaw

Annexure A

DETAIL REVIEW OF NORTHERN AUSTRALIAN INSURANCE PREMIUMS **- 2015**

Written in 2015

Page vii At the same time, losses from a number of cyclone events prompted insurers to reassess cyclone risk, and this has been a key reason for premium increases in northern Australia.

1. According to SUU October 2011:

"The global reinsurance industry now perceives Australia to be a "riskier" place. Regional events such as the Christchurch earthquake in New Zealand and Japanese earthquake and tsunami also affect our regional pricing. Insurance companies are increasing policy premiums to offset the sharp rise in the cost of reinsurance.

"Why are premiums still increasing now?

Price reviews are not being undertaken purely because of individual weather events alone, although SUU did incur significant losses as a result of events such as Cyclone Yasi. Prices have had to respond swiftly to the sudden and significant claims and reinsurance price increases."

It has been pushed by insurance companies and the ICA that costs increased due to rises in reinsurance. Is this not so?

The Allianz submission to the Taskforce states: would reduce the cost of cyclone reinsurance, which is the main cost driving premium differentials between Northern Australia and elsewhere

Page vii the options should be responsive to individuals experiencing affordability issues associated with cyclone risk, without discriminating between states or parts of states;

2. However, the ICA and its members are discriminating against states and parts of states

Page viii As a first step, three modelling firms (Combus, Guy Carpenter and Risk Frontiers) provided estimates of the potential damage from cyclones across northern Australia to home and strata buildings and contents.

3. **The estimates were based on a 10,000 year period, see Box 1.** That seems to be extreme to say the least as any Government intervention should only be aimed at a 5-10 year period**.**

Future estimates of losses are unpredictable, especially spread over 10,000 years.

Page viii the Taskforce recommends that the region in northern Australia experiencing insurance affordability concerns due to cyclone risk should be defined as the regions north of the Tropic of Capricorn (23.5 parallel) with some accommodation for regions in Western Australia that are in the top wind zone.

4. What areas of WA are in the top wind zone? I've checked the figure on page 26 of the report and I can't tell what is in and what is out.

Tom Price is the highest town in WA at a height of 747 metres above sea level, it is inland. Newman is even further inland, and neither of these areas are in cyclone zones (Diane Pentz, CEO Regional Development Australia Pilbara). Yet these 2 areas of northern WA have large residential insurance costs.

5. Why? Are they in a top wind zone?

According to the report Study on Insurance and Banking in the Pilbara Region August 2015:

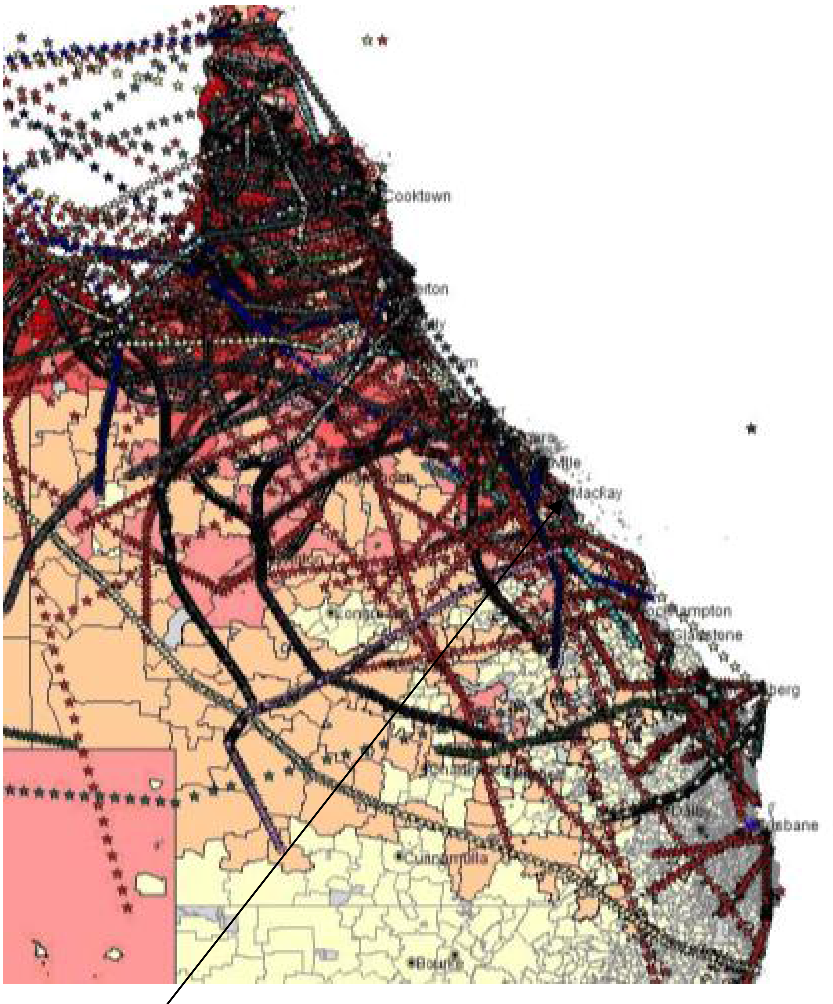
Town	Cost	% difference to Perth
South of 26th Parallel		
Perth	650	0
Albany	420	-54
Kalgoorlie	500	-30
North of 26th Parallel		
Port Hedland	11,700	1,800
Mackay (QLD)	6,730	1,035
Karratha	5,390	829
Onslow	5,232	804
Tom Price	3,895	599
Newman	3,800	900

Note: For purposes of comparison a standard 4 bedroom a one storey residence was selected with good security and constructed in 2012 near town centres

Table 4: Comparison of indicative residential insurance costs Pilbara towns to other towns ($)

Please note the cost in Mackay, which is higher than either Karratha or Onslow.

According to CGU the Cyclone Tracks 1963 to 2011 (Source: Bureau of Meteorology) are as follows:



Mackay

Mackay is not considered as being in a major cyclone area and had minor claims due to Yasi.

Page viii   Insurance losses due to cyclones (as per the definition outlined above) in northern Australia over the past 20 years have totalled $2.4 billion,

I presume this figure is taken from the Actuaries Institute *(Natural Disaster Funding Public Inquiry)* which states that although losses due to cyclones from 1999 – 2014 have resulted in insured losses of just under $3B, losses due to other kinds of natural disasters have resulted in losses of more than $8.7B.

Table 1: Most costly weather-related disaster events in Australia 1999 to 2014

Date	**Event**	**Economic Loss $ millions**	**Insured Loss $ millions**	**Insured %**	**UnInsured %**
Apr 1999	Sydney Hailstorm	2,120	1,700	80%	20%
Mar 2006	**Tropical Cyclone Larry**	**1,500**	**540**	**36%**	**64%**
Jun 2007	Hunter Valley & Newcastle Storm/Floods	2,145	1,480	69%	31%
Feb 2009	Victorian Bushfires "Black Saturday"	1,444	1,070	74%	26%
Mar 2010	Melbourne Hailstorm	1,293	1,044	81%	19%
Mar 2010	Perth Hailstorm	1,351	1,053	78%	22%

Jan 2011	Floods QLD & NSW	6,000	2,388	40%	60%
Feb 2011	**Tropical Cyclone Yasi**	**2,000**	**1,412**	**71%**	**29%**
Jan 2013	**Floods and storms Qld (following TC Oswald)**	**1,650**	**977**	**59%**	**41%**

Page ix modelling work commissioned by the Taskforce indicates that the expected long-term *future* losses from cyclones in northern Australia are around $285 million per year.

6. If the average for the last 20 years has been $115M per year, why is it predicted **future losses will be more than 100% higher in the next 20 years?** There's not more than 100% increase in population or infrastructure predicted as far as I can tell.

Box 1 states: However, there remains uncertainty about the potential cost of cyclone damage. In part, this is because the models use different assumptions about future cyclone activity and the level of damage that cyclones would cause to particular building types. **The difference in predicted losses between the 3 modellers is $13B.** (page 34)

It would be better to use BOM predictions.

Page ix These models are the best currently available and are used by the insurance companies as a basis for setting their premiums.

7. !!!!! So that's why we're stuffed!!

Page ix Work commissioned by the Taskforce estimates the current cyclone premium pool for home, contents and strata insurance to be around $480 million per year, compared with a total premium pool for northern Australia of around $1 billion, although these numbers are subject to a degree of uncertainty.

The 10-15 per cent premium reduction under a partially funded scheme refers to the average reduction in total consumer premiums. However, the schemes being considered only reduce the *cyclone component* of premiums.

8. And this is where I get confused. The cyclone component isn't always identified, in fact I can't find anywhere where it is stated and the one calculated is completely unreliable. So you have no idea of what the saving may be. <u>**If**</u> the calculated cyclone component is that low (48%), and hence the savings are low, then **why are our premiums so high?** The report is implying the largest part of the premium isn't the cyclone component, so what is it?

Figure 9 on page 36 shows the supposed cyclone component of premiums higher in Townsville than Port Hedland, Darwin and Weipa. In fact it shows the cyclone component in Townsville is higher than anywhere else in Australia, but Townsville has had strong building regulations since 1978 and gets less cyclones than other areas**. <u>I find these figures for cyclone component as highly suspect.</u>** The average shows at about 48% of a premium. If that's even close to correct then premiums should be higher in Townsville than anywhere else – they're not. AND according to the BOM and their Cyclone Tracks 1963 to 2011, Townsville gets much less cyclones than Weipa and other areas.

Finity Consulting notes the challenges in estimating the premium pool for home and contents insurance from online data and the limited availability of data for strata building insurance across Australia. **I'm not surprised, most strata policies including ISR policies can't be purchased online.**

<u>**I think the calculation of the cyclone component is incredibly unreliable.**</u>

Surely the insurance companies could tell us what percentage of a premium is cyclone component.

+Does the cyclone component as specified include the catastrophe loading added onto a policy in these areas?

Page xii A cyclone-only reinsurance scheme may create some uncertainty and friction for insurance companies as they seek to incorporate 'cyclone' risk reinsurance with their current arrangements.

9. Why isn't it just a simple as saying they don't need coverage for cyclones anymore? The Allianz submission to the Taskforce states that it should be easy to do and simple to implement.

Page xii It would be difficult to assess whether insurers fully pass through the lower reinsurance costs to consumers

10. This is the point, **there is no watchdog**! If fuel, electricity etc. went up over 100% overnight with no warning there is someone to ask questions, even with Health insurance because of Medicare, but not for General Insurance.

Page xiii It was widely considered by stakeholders that encouraging mitigation should be part of any Government response to the rise in insurance premiums.

Insurance companies estimate that mitigation actions could reduce premiums for some properties by up to 20 per cent.

11. I actually agree with mitigation but why would the reduction be only 20%? Taking the Mackay figure from the Pilbara report of $6,730 a 20% discount would result in a premium of $5,384. Is this affordable? Certainly not for retirees and/or low income owners.

Page xiii in addition to benefiting the property owner, mitigation work will also benefit neighbouring home owners (by reducing collateral damage to their property), insurance companies (by reducing claims) and governments (by reducing demands on emergency resources).

12. So, mitigation cost should be met not only by the owners and Governments but also by the ICA and the insurance companies themselves! Shouldn't they?

The submission from the JCU CTS also stated: Insurers could improve their own risk profile by either **subsidising risk mitigation** actions or by offering discounts on premiums in response to actions taken.

Page xiii Further, the property owner may not see the benefit of mitigation in the form of lower premiums if mitigation action is not adequately captured by insurer pricing.

13. So far only RACQ and Suncorp themselves (not companies owned by the Group) have put in place systems to recognise resilience, even then these systems are not available the Northern Australia only to Northern Qld because I shout louder than most people. Why can Northern WA not benefit from these systems and when will the other insurance companies follow suit?

Note: I have no reports on reductions from RACQ as the reductions only apply at renewal stage. However, with regards to Suncorp their reductions start as soon as the client calls them. Reports from Cairns have been positive (4CA Talkback radio); a new roof, joists and tie downs on an old Queenslander in Townsville resulted in a 16% discount on a premium over $4,000; a new roof on an old Queenslander in Townsville owned by a journalist on the Townsville Bulletin resulted in a 3% reduction (not happy Jan).

Page xiv The provision of additional mitigation grants to local councils for water management and flood protection infrastructure would assist in reducing cyclone-related flood damage to property

14. What proportion of damage is due to cyclone-related flood damage?

Page xiv Insurers could offer lower premiums if items like shade sails, garden sheds and outdoor structures were excluded from policies, or if there was an option for the policyholder to accept a higher excess for cyclone damage (and retain a lower excess for other damages, such as from fire and theft). If consumers took more responsibility for the risk of cyclone damage to their properties through higher excesses, insurers indicate that the reduction in premiums could be up to 30 per cent.

15. Why are the insurance companies not bring out policies which don't insure these things?
16. Home and contents products do not allow you to select a higher excess for cyclone damage and the premium doesn't show how much of the premium is for cyclone insurance. Why are the companies not developing transparent invoices which show these things and allow higher excesses for cyclone for all General Insurance products?

Page xiv Resilience rating tools: Better and more accessible information about building resilience measures would help enable and motivate homeowners to take action to protect their property.

Information regarding this is hidden in the JCU CTS very brief submission (4 pages), namely: In terms of how an assessment process could be established, the Building Asset Services of the Queensland Dept of Housing and Public Works has recently submitted a proposal for the independent assessment process for Strata title properties.

I followed this up because my idea submitted to the Taskforce in August 2015 went down this path and resulted in a final property rating. The benefit of a final rating should mean that all properties with the same rating have the same base premium no matter where they are, location becomes irrelevant. I had a meeting with Dr. David Henderson of the JCU CTS in Townsville and according to him a fully designed, developed and tested risk assessment and rating system (paper based) has been sitting with the State Government for over 12 months.

17. Why did the Taskforce not pick up on this and recommend it be developed into an ipad/laptop risk assessment system, and suggest the ICA and insurance companies use it?

Admittedly it is the Rolls Royce of systems and was developed by Engineers with no reference to Building Consultants who actually do the property valuations, and the feedback I have from Building Consultant companies is that they don't understand it, but it is there. I would like to work with a Building Consultant to develop a simpler system based on the one already developed.

Page xiv The insurance industry has proposed schemes for the Australian Government to directly subsidise mitigation action by property owners.

18. Why are they not contributing to this, as its their money we are potentially saving?

Page xv Focusing a mitigation subsidy program on strengthening the resilience of older properties offers the scope for lowering insurance premiums for these properties.

19. What about newer properties? The premium increases were across the board, not just older properties.

The best thing about mitigation is that to identify mitigation projects proper risk assessment has to be done. Currently risk is assumed and not assessed. Insurance companies and the ICA may show you highly technical products with which you can examine properties without going to them, but when someone talks to a person or uses the Internet in order to get a quote these products are not used. Maybe they are only used for ISR (Industry Special Risk) policies which can apply to complexes valued at >$15M.

Page xv For example, a 10 per cent subsidy to low income households would cost as much to administer as the value of the payments themselves.

20. I'm not pro the idea but what are the figures and why would the administration be so high?

Page xv There were numerous calls to reduce taxes and duties on insurance.

I had a one-on-one meeting with the then State Treasurer Tim Nicholls re the insurance crisis and 2 weeks later he put the insurance stamp duty up. I notice the current Treasurer hasn't put it back down. Taxes add 19-20% to a premium and stamp duty is calculated on the premium + GST.

21. Isn't a tax on a tax illegal?

Page xv Commissions paid to strata managers when they purchase insurance on behalf of an owners' corporation are generally calculated as a percentage of price, which means they may act as a disincentive to seek best value for money.

22. My pet hate. Very few body corporate managers (BCM) in Qld or anywhere else in Australia hold an Australian Financial Services Licence, issued by ASIC, to provide advice on financial products, including insurance policies, whereas all Brokers do. **Why should this practice of insurance companies paying commission direct to BCMs be legal?**

Page xvi The Taskforce has investigated options for the West Island of the Cocos (Keeling) Island that could be pursued further through action by local residents. On Christmas Island, ambiguity around the application of strata laws is obstructing strata unit holders from purchasing insurance. Action by the Australian Government to clarify the application of strata laws could assist residents.

23. What are they because the local residents haven't got a clue (Karenn Singer Christmas Island Tourist Association Manger), even though they submitted to the Taskforce?

Note: The submission from the WA State Government was sadly lacking. The submission from the Qld State Government was extremely late in arriving and not issued to the Advisory Panel for comment.

Page xvi Through the process of this Taskforce, it was evident that there have been some positive developments in insurance markets in northern Australia, with insurers introducing products which provide greater scope for consumers to achieve lower premiums.

Only because we've been kicking up a fight for nearly 5 years, but it's not the insurance markets in northern Australia, its **northern Qld only** at the moment.

Page xvii The insurance industry should engage more effectively with property owners in northern Australia. This requires improved disclosure of risks and greater responsiveness to policyholder concerns. The industry has already taken steps in this direction.

24. What steps?

Page xvii For example, a retrofit scheme for strengthening roofs for older properties in northern Queensland is estimated to cost around $1 billion (or $500 million if targeted at low-income household).

25. How is that calculated?

Page xvii It is estimated that the Government would face a 50-60 per cent chance of having to make a payment under the guarantee if the scheme ran for 10 years and a 10-20 per cent chance these payments would exceed $2 billion in total.

This would depend on when the Government guarantee cut in which is suggested at $100M. If it is to cut in when losses reach $1B then according to the Actuaries Institute it would only have happened once in the period from 1999-2014 – see point 6, and according to Allianz a total industry insured loss event limit of $1.5 billion would remove insurers' exposure to around 80% of the insured losses from cyclones that have impacted northern Australia since 1975.

Additional Points

Page 18 Reference: AGA *Report on Investigation into Strata Title insurance Price Rises in North Queensland*, 2012, with an update in 2014, and *Report on Home and Contents Insurance Prices in North Queensland*, 2014;

I had a number of problems with these reports:

a) The data provided by the insurance companies was not cross checked against actual data provided by consumers
b) Some insurance companies refused to supply the data requested (Suncorp) and seeing as they were the biggest insurer in north Qld I would have thought the missing data was important
c) “A major driver of premiums is for expected claims cost”, not actual past claims cost
d) “the major events that need to be considered include cyclone in NQ, earthquake in some capital cities and hail.” Floods were ignored, particularly in Brisbane because “Yes it was excluded from this list because not all (strata) policies cover flood while all policies will cover the other perils.” According to reports, after the Brisbane floods premiums increased by 36%.
e) “the estimate of implied profitability obtained above unavoidably depends on the assumptions adopted. Different assumptions will yield different results.” Very important point
f) “the analysis suggests that east coast prices should be around 23 per cent of NQ prices”. They’re weren’t. “actual average premium rates in east coast centres in 2012-13 were less than 20 per cent of NQ rates”. So north Qld were paying too much
g) “competitive pricing pressure is largely missing in NQ.”
h) “2011-12 and 2012-13 have both seen good returns.” I estimate an **additional** premium income to insurers for strata properties alone of $1B over the last 4 years
i) “A very limited volume of pricing data was provided in relation to north-west Western Australia. The data that was provided suggested that prices being charged in that region were broadly comparable with those being charged in NQ”. In 2012 SUU did a number of seminars throughout NQ. At these meetings SUU stated that NQ had been hit by 54 cyclones over the last few years, North WA had been hit by 102. Working on his assumptions, NQ should be paying 1/2 the amount in premiums at NWA since our risk is lower

Page 18 Another recent change reported by insurers is that they have moved toward allocating the cost of catastrophe reinsurance more in line with the risk attributed to each policy.

26. How much is the catastrophe reinsurance for policies in northern Australia? I’ve seen 35-60%. Catastrophe insurance for flood areas, storm areas and bush fire areas is expected to be much lower although the disasters are just as likely to happen.

Page 18 The very significant increase in strata premiums suggests that this segment of the market was previously particularly under-priced

27. So is this negligence or incompetence?

Page 19 The modelling commissioned by the Taskforce also suggests that current premium rates are not out of step with estimates of the magnitude of the risk.

Allianz Australia highlighted the weather risk component of insurance costs in North Queensland stating that *“average premiums between North Queensland and elsewhere involving multiples of 2.5 times reasonably reflect differences in risk”.*

28. So 5 times the cost, which the Federal Actuary reported, does not reasonably reflect difference in risk?

Allianz Australia noted, however, that *“this conclusion becomes harder to sustain in light of evidence that some homeowners face premiums of **ten or fifteen times those of other Australians**”.*

Page 19 If the level of insurance premiums now better reflects the higher insurance risks in northern Australia because of cyclones, the question that has been posed by the insurance companies, in submissions and consultations with the Taskforce, is ‘what is the problem?’

29. I’ll answer that – it’s not affordable!

Page 20 For strata insurance, following three years of stability, the annual increase in the premium rate each year ranged from around 15 per cent to 65 per cent over the period 2009-10 to 2012-13.

30. **This does not state “average” but it included the period 2009-2010 and the period 2010-2011 when premiums fell.** Premiums jumped for strata in 2011-2012 and for home and

contents at the end of 2012, so if the **previous two years are missed** out what is the resulting increase in premium? In 2011-2012 mine went from $25,000 to $81,000 with no claims.

Page 21 many people in northern Australia face below the average cost, but costs are very high (upwards of $3,000) for a small proportion. This proportion is likely to be those dwellings in particularly high risk locations (such as sea front properties) or older buildings that are assessed to be less resilient.

31. Why is it likely when the facts show differently? New units in Mackay are $4,000 - $5,000. There are units in the Whitsundays paying $3,000 - $4,000 per unit. Magnetic Island is around the $4,000 mark with no claims due to Yasi.

Page 22 the proportion of people spending more than two weeks' income on insurance in northern Queensland and Darwin is over 12 per cent.

The conclusions of the Institute of Actuaries on the insurance crisis, *in the Actuaries Institute's response to the Productivity Commission's Issues Paper on Natural Disaster Funding Arrangements ('discussion paper') released for consultation in May 2014.*

"Insurance is becoming unaffordable for some parts of the community, especially those living in areas at high risk of natural perils such as flood and cyclone and to a lesser extent bushfire*. The following chart shows that the cost of building* ***insurance premiums for 320,000 households (or 4% of total households in Australia) is estimated to exceed three weeks of average earnings****."*

32. The Taskforce figures show 960,000 people are paying more than $3,000. The Actuary figures show 320,000 households are paying more than $4,500. Is this affordable?

Page 22 The Suncorp Strata Direct product is for complexes of less than 11 apartments and valued at $5M or less. The increase in competition for complexes valued at >$50M has increased (ISR policies). Those in between, especially valued at $5M-$10M are still experiencing trouble.

Page 23 Measures to assist property owners to deal with the rise in premiums should, if possible, be linked to them taking mitigation action

33. How can we make insurance companies take note of the resilience of a property?

Page 27 The approach proposed by the Taskforce is to define cyclone damage as that caused by a *named tropical cyclone*

Note: You can't have an un-named tropical cyclone. Once it's named it is a cyclone, before that it's a storm.

Page 29 On average about 13 cyclones form in the Australian region each cyclone season, and typically about four cross the coast. Half of the cyclones that form become severe.

34. Where do these figures come from?

Page 44 if the mutual in Scenario 2 were to purchase reinsurance cover for losses above $1 billion up to $2 billion the overall costs of the mutual would rise by around $90 million due to the need to pay reinsurance costs

35. According to the ARPC annual report 2013-2014 (page 55) for the 12 months to 30 June 2014 their reinsurance cost them $81.7M for a program of $2.9B. So why are the costs in the Taskforce report higher for less coverage?

Page 45 Those individuals with high cyclone risk should therefore receive the largest discounts. This means that some people with low cyclone risks will not receive the same degree of discount, although these policyholders should have a lower premium to start with compared to those in high cyclone areas

36. This makes the assumption that the cyclone component is based on area, and it maybe. However, the cyclone component should be based on the resilience of the property no matter where it is located. Why make this assumption?

Page 45 it is not possible to know exactly the premium that is currently being charged to each policyholder by their current private insurer

37. Why? Ask the insurance companies

Page 49 The costing assumes an industry retention per event of $100 million

38. $100M spread over the entire industry is nothing, I would have thought an industry retention per event of $500M-$1B would be more realistic, only TC Yasi (and maybe Oswald) would have fallen outside of this. If the industry retention was $1B over all the companies then only TC Yasi would have resulted in a claim from the reinsurance pool. Why only $100M for the industry when even Allianz recommends $1.5B?

Allianz submission to the Taskforce states: **a total industry insured loss event limit of $1.5 billion would remove insurers' exposure to around 80%** of the insured losses from cyclones that have impacted northern Australia since 1975.

Allianz: The ICA estimates the current cost of Cyclone Tracy at around $4 billion but this does not take account of improvements to the building stock, which were substantial in the rebuilding of Darwin post that event and in subsequent construction. Estimates taking this into account suggest the current cost of a Cyclone Tracy would be $1-2 billion.

Page 50 The calculations are based on an incredibly low industry retention amount, so cannot be trusted. **Have them reworked on an industry retention of $1B** (less than Allianz suggests).

Page 55 The reinsurance pool may take some time to have an impact on prices.

39. Why? Allianz disagrees.

Page 56 overseas experience suggests it is difficult for a government to withdraw from any arrangement providing subsidised insurance.

40. This isn't subsidised insurance, its subsidised reinsurance which hasn't been fully tested overseas

Page 59 Estimates of the proportion of residential buildings built in accordance with modern building standards in northern Western Australia were not available.

41. Why?

Page 62 Macquarie University estimated that this equates to a present value benefit of future loss reductions equalling $14.2 billion (Australian Building Codes Board 2014).

42. It doesn't look like this has been taken into account in any calculations

Page 65 I don't get the chart. The majority of the Whitsundays has been built since 2000 but the chart is implying we're paying only 0.4 less than a property built in 1930. Surely the difference should be higher.

Page 67 increasing the level of excess from $500 to $3,000 can reduce premiums by around 30 per cent

43. Home and contents insurance does not allow you to raise only the cyclone excess on a policy, the excess applies for any event. Are insurance companies going to allow this in the future?

Page 68 Insurers note that a person's claims history is already taken into consideration when policies are priced.

44. But they don't take into account that any damage has been repaired to new standards and shouldn't happen again.

Page 71 Both schemes would only apply to properties in northern Queensland.

45. Why has the rest of Northern Australia been missed out? I know IAG and Suncorp are trying to appease me but......

Page 71 the scheme proposed by the ICA also included the Government providing a two-year direct insurance subsidy of 20 per cent to provide immediate premium relief while mitigation work is being undertaken

46. How about the ICA pay to help reduce possible claims against their members?

Page 77 Body Corporate Manager's commissions, in particular direct from an insurance company

47. Very few Body Corporate Managers in Qld would hold an Australian Financial Services Licence, issued by ASIC, to provide advice on financial products, including insurance policies, whereas all Brokers have to. Surely if BCMs are getting commission from an insurance company for placing their business with them then they are acting as a Broker and should have the appropriate qualifications?

“There should be a government insurance office set up to provide ethical, affordable insurance to all Australians because the "for profit" companies have been shown to not be able to provide fair and just disbursements to their customers.” **Woorim**

What would I like to see/achieve?

- The ICA to admit we have a problem otherwise we wouldn’t be here
- People being able to afford their insurance – insurance is a necessity not a luxury – so that we don’t go into the next cyclone season with more than 50% under insured or not insured at all
- Pensioners not getting quotes of $13,000 and crying down the phone at me
- Transparent invoices which show exactly who is getting paid what because brokers come under Federal legislation and BC Managers under State legislation
- Insurance companies not paying commissions direct to BC Managers because they are not brokers and are not trained to place insurance!
- Third party commissions and conflict of interest payments made illegal – brokers not paying BC Managers commission for getting all their business as it increases the premiums for strata policies
- Allianz in particular putting something in their system which prevents them from quoting $17,000 - $20,000 for normal house insurance in North Qld. It isn’t difficult to produce a report for review when the quote for a property far outweighs the value of the property, I know, I’m ex IT
- The cessation of mortgagee in possession sales and the return of some stability in the affected areas
- Units in Mackay not paying $4,000 - $5,000 per unit, and the Whitsundays not paying up to $9,000 per unit
- The number one industry in Cairns not be taking unit owners to court for bankruptcy
- Mitigation reports recognised instead of being ignored and premiums still increasing
- North Qld households not paying 5-8 times more than Brisbane and it being justified because all claims due to floods, including the Lockyer Valley disaster and the Brisbane floods, were left out of a report
- Heritage listed buildings finding affordable insurance and not at 10 times the cost of that in the south
- The cessation of catastrophe penalties being added to policies which have already been loaded to include clearing the land, temporary housing and 2 years to rebuild because what more of a catastrophe can you get?
- Insurance companies to get local quotes for work rather than using preferred suppliers from different states
- Premiums over a certain amount being able to be paid monthly without penalty and costly loans
- Postcodes not used, you can’t use a postcode to know where someone lives – Palm Island has the same postcode as Homestead which is west of Charters Towers
- Risk to assessed rather than assumed
- Our premiums to reduce to near parity with the rest of Australia, who have their own disasters, and are better able to afford them
- Someone taking responsibility for the insurance industry, and I don’t mean the ICA

I really believe had the ICA acknowledged the problem back in 2011 and sat down with its members to come up with possible solutions, they would have found cross party support at State and Federal level as I have, and we wouldn’t be having this discussion.

“We own a unit in Port Douglas and feel concerned about the huge increases in premiums for strata insurance and feel they can't be justified, we have only one or two companies prepared to quote and by law must take out insurance so they could ask for a million dollars and we'd have to find the money or break the law. Owners are caught between a rock and a hard place. Buildings are not being individually assessed for risk, we have had no claims for cyclone damage or any significant claims for water damage caused by storm and floods, yet our premiums are going up every year and by a large margin. It makes the apartments less attractive as a home or investment and may affect our sale price. It's blatantly unfair and the law needs to be challenged, we should be able to self-insure or the Govt should take over strata insurance similar to the NT Govt after Cyclone Tracy.”

We need proper solutions,

not excuses, not talkfests, no more Inquiries.

Solutions!

SUGGESTIONS/SOLUTIONS

"It is so foreign to the Queensland sense of fairness, when you work hard and forgo the pleasures of the 'now' to save for future security. Hard working Queenslanders are being penalized for this admirable ethic by the incomprehensible size of the rise in the insurance premiums. Yes, we understand that underwriters have abandoned the local insurance firms, but we have to find a solution otherwise the inevitable outcome is too scary to contemplate"

Being someone who not only sees the problems but can also offer solutions for consideration, I ask you to consider the following:

Notes:

I have used STRATA to mean any property which has a common area, including Retirement Villas, shared commercial premises etc which do not actually fall under the term of STRATA.

Tourist complexes do not fall under residential, even though people live in them. We need to make sure any recommendations apply to all types of property.

Body Corporate Management companies also means any company which manages properties, such as tourist complexes, that have common property. It is also to apply to Developer's Management companies or Retirement/Leisure companies etc.

The following suggestions and solutions predominately apply to any property, in any location in Australia.

"I am in a retirement village and believe I should have the right to reasonable prices for insurance."

1. Flood Mitigation

OK, let's think outside of the box.

If north Queensland was its own country, it would be one of the wettest in the world.

One of the largest rivers in Australia runs through north Queensland, the Mitchell, none of this water is being captured and areas throughout Australia are suffering drought.

North Queensland needs dams, 2-4 dams actually.

So stop spending millions, if not billions, on making sure people in SE Queensland can get to work 15 minutes quicker and spend some of the money in North Queensland on dams and flood prevention so people can get to work (or home for that matter) the same day!

The ICA say mitigation is the way to go, so go there in a big way.

I understand this won't help cyclone damage, well not by wind, but it would alleviate some of the damage caused by floods after cyclones. ALSO, water contained in the dams could be used in time of drought to aid the farmers, and also to open up further huge areas of land for agriculture.

It's a win/win for all.

2. Business for insurance companies to reflect populations

This isn't my idea but I like it. It's a prevention of "cherry picking" suggested by The Hon George Christensen MP.

Currently insurance companies are dropping out of the market, or have already dropped out of the market, in various locations. In some cases they are not operating anywhere north of the Tropic of Capricorn (Rockhampton northward).

This is a case of selective coverage, which needs changing.

Determine zones in each State or Territory.

So if 30% of the population of Queensland is above the Tropic of Capricorn, then 30% of the business done in Queensland by an insurance company must also be above the Tropic of Capricorn.

This is my simplistic view in order to explain the concept.

Even if insurance companies decided to offer their products to remote regions rather than to the coast it would lead to more competition in rural areas (which are also very low in companies willing to quote), and sooner or later they would run out of properties to insure and have to take on coastal properties. This would lead companies to have to do proper risk assessment.

3. Remove taxes on taxes

“I own a unit at Laguna Quays. The value of this property has plunged due to the mismanagement of the resort by the owner. The insurance jumped from $23,000 to $118,000 p.a. which was whittled down to $68,000 with a lot of hard work by the committee chairman. This is still far too high, and put the levies way up. We are pensioners and cannot afford to keep paying high fees. And the excess in case of a claim is $25,000. We would be better to self-insure, except it's against the law! The government is double dipping with stamp duty and GST and no wonder they don't want to lower premiums. It's worth millions to them to keep them high. We have gone to considerable expense to mitigate any cyclone damage, and we are not in a vulnerable position being in the lee of a hill and not on the seashore. No consideration is given at all on a case by case basis to the vulnerability of the properties.”

We need a reduction in total taxes paid in addition to the basic premium.

GST is charged after statutory charges have been added, resulting in a tax on a tax!! I thought this was illegal.

Please Federal Government charge GST on premium before stamp duty is added and please State Government don’t calculate stamp duty on the combined amount, just on the base premium as well.

In fact stamp duty has been proven to be an inefficient tax, so remove it altogether.

4. Recognition of mitigation projects

There have been many reports in the media regarding property mitigation for cyclones, and someone has asked me exactly what mitigation is.

In this case mitigation means doing work on a property in order to reduce any damage that may happen during a cyclone.

It can be as simple as taking down any outside sails, bringing in outside furniture and toys, or as complicated as replacing old rooves with new rooves and joists, and tie down points to prevent damage.

The good thing about mitigation is that proper risk assessment has to take place in order to identify anything that can be done to reduce damage. Currently risk is assumed and not assessed!!

The bad things about mitigation are: the cost; and there’s no proof at the moment it has any effect what-so-ever on premiums – ask the Townsville man who replaced his roof and joists, added tie downs, and had absolutely no reduction in premium!!

I believe mitigation procedures in the long term may only reduce premiums by about 10-15%, that’s $400 on a premium of $4,000. It still comes down to whether $3,600 is justifiable or <u>affordable</u>.

Spending $20,000 - $30,000 on a new roof in order to save 10% on your premium and to save a “possible” claim of $50,000 for an insurance company is impossible to sell.

Mitigation has been pushed hard by the Insurance Council of Australia, who totally believe this is the one and only solution. I believe the only way mitigation can be a major feature considered for reducing insurance premiums is if the cost is paid for by the insurance companies themselves. After all it is their money we’re supposedly saving.

I do not believe under any circumstances either the State or Federal Governments should be totally subsidising mitigation projects in order to save insurance companies money. Insurance companies make enough profits to pay for the mitigation they deem required.

Government money can be better spent elsewhere.

With the exception of Suncorp (not the Suncorp Group as a whole) and RACQ no other insurance company takes any notice what-so-ever of any mitigation which has taken place.

No broker or member of the insurance company ever sets foot on the premises before insurance is quoted.

Risk is assumed and not assessed.

As I'm sure I've mentioned before, in the Federal budget of 2014 we got $12.5M for strata properties to apply for **grants for proper risk assessment**. The money has not yet been accepted by the State Government but there was an announcement end of 2017 that the State Government was going to accept the money (at last) and give it to James Cook University (JCU) to produce risk assessment tools and to administer grants. I emphasise the grants because that was what the money was allocated for, not to do research and development.

It's a step in the right direction. However, the contract is still being debated and whilst I agree that JCU Cyclone Testing Centre (CTC) are probably the best people to develop the tools, I do not believe they are the best to administer the money for grants. There should be a Committee of stakeholders including Consumer Representatives.

Also note: The JCU CTC produced paper based strata risk assessment tools back in 2014 and they have been sitting on Minister Mick De Brenni's desk ever since waiting to be developed.

Although the major point is: **even when risk assessment is done insurance companies pay no attention to it.**

Tell the Queensland State Government to either get on with it or let the Federal Government take the money back as the problem has now spread to the whole of Northern Australia and not just North Queensland.

I even produced a basic plan for Hon Warren Entsch MP of what I would do and how it should be done. I'm an ex IT Consultant (I've worked at Steering Committee level), I do know what I'm talking about and there is the possibility of a money making opportunity for the State/Federal Government(s).

The major problem is to make insurance companies take notice of mitigation projects. This won't happen until they are back in the market in North Queensland and have to compete for business.

We really need lower premiums for properties which have undertaken mitigation projects, not have the projects ignored.

5. Easily understood invoices and capping of commissions

Insurance invoices do not show all the entities being paid, or the amounts being paid to them.

"I am the owner of 2 apartments one in the CBD, one in the northern beaches. Insurance for both properties has sky rocketed and although we have been able to obtain insurance the areas of commissions and brokerages should be capped or a fixed amount as the amount of the premiums increase so do these $$ amounts, becoming unrealistic figures."

We need easily understood invoices so any property owner, can negotiate for a reduction in costs, if not a reduction in base premium.

The problem stems from the fact that on actual insurance invoices, the monies paid to third parties and the total premium breakdowns are not shown as separate entities so can be misleading.

- For strata properties: according to Management Agreements signed with Body Corporate Managers (etc) between 5 and 20% of base premium (occasionally more) can be paid to the BCM for arranging insurance. Using a variable percentage is also confusing and can be misleading

- Brokers fees often aren't shown as a separate entity either

- In the case of Retirement Villas, and similar cases, owners do not get the choice to try and arrange their own insurance, neither do they get any say in the broker used or the companies approached, and they have no idea if the Management company receives and kick-back

This all means owners actually have no idea how much they are paying, or to whom.

See BAD section.

We need:

a) Legislation to make invoices clearer with every entity, and payment to them, identified in full on the actual invoice

There is a benefit to every property owner as one can see actual what one is paying to whom. This allows for negotiation which has already proven to reduce insurance outlay if not the base premium.

b) Legislation stating a management agreement must show actual amounts, an actual percentage, or a percentage range (if absolutely necessary) and a maximum amount payable

Having a maximum amount payable means owners know the maximum they will have to pay to their management companies and can choose to arrange their own insurance instead.

c) Owners to be allowed to arrange their own insurance, if they are willing to do so, and at the very least have a say in which broker is to be approached

Management companies of strata properties don't want this to happen as only a few brokers pay them commission for arranging the insurance. By using a broker who doesn't pay commission to the management company and charges a set fee, a property can significantly reduce their insurance outlay, if not their actual base premium.

d) Some Insurance companies will not deal direct with their actual clients, you have to use a broker

Sometimes there are really good reasons for using a broker. However, insurance companies should look at changing their rules so they can communicate direct with property owners who want to deal direct.

At the moment most insurance companies will only deal through brokers, particularly for strata insurance. This automatically increases in the out-goings for property owners. Where owners are willing and able to search for their own insurance, they should not be made to go through a broker.

If a broker is used, the insurance company will not discuss the policy details with authorised Committee members or owners although they pay the premiums. The probability behind this might be that the insurance companies do not want to discuss broker commission. I was informed it was a Privacy issue and I had to go through my broker for information. We pay the invoices, so insurance companies should have no reason for not discussing policies direct with owners.

e) Commissions to management companies capped by law to 5-20% of base premium up to a maximum amount of $5,000. This covers making a phone call and up to 30 hours a year working on any claims (Based on $150 per hour + GST). **Even then I think this is excessive**

Capping management commissions removes the obscene amount of commission currently being charged to complexes with premiums over $25,000, for very little work.

f) Broker commission capped at a maximum of $10,000, and brokers to be encouraged to switch to set fees instead of using percentages

Capping broker commission also allows owners to know the maximum they will have to pay out.

g) To **STOP** insurance companies from paying commission direct to BCMs

There would be no reason for BCMs not to try every insurance company for quotes.

h) To **STOP** BCMs from getting commission/payments from third parties such as brokers

There would be no reason for BCMs not to use a local broker who knows the property or not to use a broker who charges a set fee rather than a percentage of premium.

It basically allows Treasurers (for strata properties) and owners to try and budget for the maximum they are going to have to pay out. They can also see what exactly their base premium is and be able to negotiate, swap broker, or bypass the management companies, where allowed.

There would be no difference to the stamp duty received so no reduction in monies available to the State Government.

However, if Broker and Body Corporate Management fees are reduced then the GST component will also reduce but this should be so minimal as not to make that much difference to the Federal Government.

Remove the conflict of interest.

6. Financial Ombudsman Services

It seems there is a limit as to how big a claim the FOS can deal with, which is why there are some people still in court due to TC Yasi (2011). I think the limit is $350,000.

Raise the limit or remove it entirely and let the FOS do their job properly.

Simple.

7. ASIC

ASIC has no jurisdiction at all over claims handling because it's a specific exclusion in the Corporations Act definition of a financial service.

This means claims handling is not subject to the act's consumer protection provisions, which means the procedure doesn't have to be efficient, honest or fair!!!

Change the Corporations Act to allow ASIC to have jurisdiction over claims handling.

Even simpler.

8. Increase in options by insurance companies operating in Queensland

If a company wants to offer a product in Queensland then a company must offer it to the whole of Queensland.

Everyone seems to be pulling out of the market (especially for strata insurance) in North Qld but still providing it in other parts of Qld, so allowing those insurance companies remaining to have an almost monopoly situation, with little competition.

A person could not go into a Myers or Ikea shop and be refused service or a product based on where they live.

An additional issue is that insurance companies are still using advertising slogans such as "Strata insurance and only strata insurance" or "The strata insurance specialists" but they don't offer strata insurance in North Queensland. I believe this is false advertising.
We need:

a) Any company (insurance or otherwise) operating in a State or Territory to offer its complete range of services across that State or Territory

b) Any company using the name of a State or Territory in its name to offer their complete range of services across that State or Territory, or change their name

E.g. Queensland Underwriting Solutions (QUS) no longer offers strata insurance in North Qld but it does in other areas of Qld. If they want the name then they should not be allowed to pick and choose their areas.

How about they rename themselves Selective Queensland Underwriting Solutions?

c) Someone to look at preventing false advertising

We would then get:

a) Increased competition as companies are forced to return to the market, or pull out entirely

b) Hopefully lower premiums

There would be no effect on State budgets, no effect on Federal income or budgets.

9. Sensible time lapses

We need sensible time lapse for insurance to be arranged. It is currently 4 weeks but in the case of strata that is for the Body Corporate Managers and not for the Treasurers.

In the examples given to the Inquiry held in February 2012 in Townsville, one complex only had 36 hours between getting a quote from their BCMs and having to pay it. The normal time was less than 2 weeks between getting a quote and it being due.

Body Corporate Committees using Body Corporate Managers have not been given time to arrange EGMs so special levies can be raised in order to pay the increased premiums. Occasionally time has been so tight that it hasn't even allowed the Committee to set up an insurance premium loan.

With insufficient funds the Strata Unit Committee has to organise an EGM (30 days notice) to issue a special insurance levy with thirty days to pay in the hope all owners pay on time.

I am told insurance companies will not quote an insurance policy more than 4 weeks from renewal. This needs to be expanded to at least 6 weeks which allows for EGMs, special levies, loan applications etc. as required.

Body Corporate Managers should have to produce their quotes at least 4 weeks prior to renewal.

This might remove the need for premium loans, which can add thousands to the cost of insurance, as there would be time to raise the extra money.

10. Variable payment periods

Insurance companies will only allow insurance premiums for strata insurance to be paid up-front for the entire period of insurance. If a six monthly policy is taken then a new policy is issued at the end of the six months and this can be higher than the first six months. Since premiums are now so high, insurance premium loans have to be taken out which incur additional set up costs and interest.

Annual insurance policies should be allowed to be paid monthly or quarterly with little or no interest being applicable.

Other insurance products offer this option, why not strata insurance? The insurance companies are going to get their monies anyway.

It means Body Corporate Committees can organise collection of monies without having to have EGMs or special levies and that insurance premium loans will not be required, saving additional costs.

11. Risk assessment

"The increases are not risk assessed, but legalised extortion which presents an impossible ongoing financial nightmare for retirees."

We need proper risk assessment by local assessors, on request. Not all properties require proper risk assessment but some most definitely do.

a) No Broker actually sets foot in the properties for which they are providing insurance quotes

b) No member of the Insurance companies actually set foot in the properties for which they are providing insurance

c) Properties which cannot flood are forced to cover for flood insurance

d) Properties recently built to Council approved cyclone standard get the same rates applied to them as properties built 20-30 years ago

Some insurance companies still calculate premiums via postcode, so in the Whitsunday area the calculation is the same for Hayman and Hamilton Islands as it is for the mainland at Airlie Beach. Actually Homestead (209K west of Townsville) has the same postcode as Palm Island so is the "cyclone capital" of north Qld – I don't think so.

Properties in North Queensland have to be built to cyclone standards. This costs more, so we're better built than those in the south east yet we have higher premiums.

Make it possible for properties to have a risk assessment done paid for by the owner(s). This can then be given to a Broker/Insurance Company and used as part of the premium calculation formula.

This would stop premium calculation being done on postcode alone.

We need to make sure that 1 risk assessment is good enough for multiple insurance companies as we don't want to get into the situation of having to have a risk assessment done for each Insurance company.

- Insurance Companies should examine the Risk Assessment and charge premiums accordingly – or – have optional additional clauses to cover special cases such as land slip, flooding, ocean frontage/tsunami damage etc

This would result in a possible new industry and opportunity for new job creation.

12. Compulsive Cover

"As a Unit owner I am forced to pay these extortionate prices – whereas home owners are not legally obliged. Not only this, but each unit pays equivalent rates to those of home owners without the luxuries associated to home ownership. And to add insult our water bill is divided amongst all units (I am a single occupant and pay for those who might have up to 4 people in one unit). As a single person I could only afford a unit – but now I feel I would have been better off spending these thousands of $ extra on mortgage payments – for a house – with space and more privacy!"

Change legislation for compulsory cover for properties with common areas and allow strata properties to choose their level of cover, as with stand alone houses.

According to Qld State Legislation strata properties have to be insured for total replacement value including a percentage increase to allow for the fact it may take up to 2 years to rebuild +++ Houses do not!

I believe this is clear discrimination. The Australian Human Rights Act (section 26) states that a person cannot be discriminated against based on property. I believe there may be a case for a class action against the Qld State Government based on discrimination.

Either introduce legislation making it mandatory for houses to have some form of insurance, as in the case of CTP, or change the legislation to allow for Body Corporate Committees to decide how much to insure a strata property for – such as market value.

If all properties had to have minimal insurance, there would be:

- An increase in the income of insurance companies
- An increase in the income of brokers
- A possible reduction in insurance premiums as profits would rise
- The reduction of Government intervention after a disaster

13. No claims bonus

If a property hasn't made a claim then premiums should not increase over an agreed percentage, or in fact, at all.

The fact that a property has not made a claim does not seem to have any influence over the increase in premium – ridiculous!!!

One complex built 6 years ago has not had a single claim in the 6 years but still had an increase in insurance premium of more than 200%.

There are no claims bonuses for all sorts of insurance policies, but not for property insurance, or if there is I haven't come across it. There should be a ruling that if a property has not made a claim in the past 12 months then the insurance premium should not go up (maybe come down - why should it go up?

Something like this would also help to prevent people from claiming when they actually shouldn't be. We all know it happens but if they were to gain the possibility of an increase in premium then maybe it wouldn't happen so much.

14. International insurance companies

We need access to international markets to bring more competition in the insurance market in Australia.

I understand currently International Insurance companies are not allowed to quote for our insurance.

Why not?

Our current insurance model hasn't changed for years and the industry is totally despised, especially in North Qld.

An American Solution - Lemonade.

Lemonade is a new kind of home insurance company. It operates almost entirely online with no human brokers or underwriters, and uses algorithms and artificial intelligence so that everything from signing up to getting a claim paid takes minutes, not days. Lemonade says it erases the tension that exists between insurance companies and their customers because it can pay out claims without having any effect on its bottom line.

Insurance is supposed to offer us peace of mind and financial aid during some of our most vulnerable moments, but it doesn't. Insurance companies don't want to pay out because if they don't pay claims then they get to keep the money.

What Lemonade does is collect premiums, then uses a fixed 20% to pay for its administration and any profit after claims gets donated to a charity of the customer's choosing. This is intended to change the dynamic – a not for profit insurance company.

Since they don't get any additional benefit from refusing claims they hope it brings out the best behaviour in the clients, because when you're making a claim you're reminded that charity which is going to lose out if the claim is exaggerated, not the insurance company.

The business model attracted excitement from investors and the startup's $13 million seed round was the largest of any U.S. company in 2015, according to Bloomberg. Sequoia Capital.

How it works.

The company offers homeowners and renters insurance. Algorithms calculate the premium. For many renters, the monthly premium comes out to the company's minimum of US $5; for homeowners, the price starts at US $25. Higher coverage costs a couple dollars more.

When you file a claim via the app, you record a video of yourself explaining the loss. Lemonade's logic: Studies have shown that people are less likely to lie when looking into a mirror. The app makes you sign an on-screen pledge of honesty before placing your claim; before you hit Submit, it reminds you explicitly that the money paid for your claim will be taken not from Lemonade, but from the charity you'd previously selected.

May 2018

Lemonade launched what it calls the world's first open-sourced insurance policy.

According to a news release, the policy is open to editing from the 'wisdom of the crowd', turning the traditional way of crafting an insurance policy on its head. Because the policy is open source, it's not copyrighted, which means the community can edit it and all of Lemonade's competitors have access to it, too. The policy is also written in English and is intended for US renters, but the company plans to expand it to cover other lines, languages, and legal jurisdictions.

They are determined to drag insurance into the 21st century, kicking and screaming.

The goal is to make insurance "simple, fair, and approachable to everyone," said Shai Wininger, Chief Lemonade Maker and co-founder

Lemonade's aim is to take the company global.

15. Reinsurance penalties

Reinsurance penalties should be apportioned over the whole of Australia and not just the areas currently penalised.

We have been told one of the main reasons why the premiums have increased so dramatically is that reinsurance penalties have been applied to this area of Qld due to cyclones and flood damage. I have been told the reinsurance penalties make up 6-8% of the current premium. However, I believe approximately 45% of the 6-8% is being applied to the north Queensland market – I could be wrong.

As of 2015 it was reported in the Weekend Australian that reinsurance costs were set to plunge due to the huge influx of investors to the market. It seems the returns are so high (around the 16%) that people can't wait to invest. However, the report suggests this reduction in costs will only apply to commercial and business insurance. WHY?

Australia constantly has disasters, from bushfires and drought to floods and cyclones, there are going to be constant reinsurance penalties. If every penalty was apportioned across the whole of Australia instead of just in the area currently penalised you might remove the peaks and troughs.

If Australia shared the reinsurance penalties there would be a much better balance of premium increases with no particular area being penalised.

Australia would have the ability to continue development in emerging areas which fall within the 'penalty zone' (e.g. North Western Australia).

State Government(s) income from stamp duty may vary a little but there would be little change to Federal Government GST income.

16. New types of insurance policy

We need insurance companies to consider different and new type of policies for the future, particularly variable types of insurance policies for strata buildings.

This is going to be difficult, I know, and may turn out to be impossible, it's just a suggestion.

a) What about a standard insurance policy for strata buildings which covers the communal property (swimming pool, lift etc), public liability, office holder's insurance etc, and have all the owners insure their units separately.

There can't be an option not to insure but owners should be able to insure with which-ever company they wish which spreads the risk between companies and should lower prices.

b) I understand from investigation that Mining companies can get different types of insurance for different types of property on the same title, using different companies.

I would like to be able to do the same and be able to insure separate buildings within a complex with different insurance companies.

17. Insurance premium loans

I realise this maybe petty but if a company is not offering to insure then their sister company(ies) should not be able to make a profit from premium loans.

Insurance premiums are so high that a number of Body Corporate Committees have had to arrange insurance premium loans – this cost my apartments more than $6,000 in set up fees and interest in one year.

Ironically we managed to get a loan with Lumleys Insurance only to discover it is a company that has actually stopped offering strata insurance in North Qld.

If you're not going to offer the product then you shouldn't be able to profit from the fact another company has!!

If you could stop insurance companies from offering insurance premium loans to properties they are not willing to actually insure, they may think twice about their insurance policies.

18. Rules on percentage increases

There are rules for rent increases but not for premium increases. It is against State legislation for rents to be increased above a certain amount in a rental term, so why can't we make it against State legislation for insurance premiums to be increase above a certain amount in an insurance period?

We need prevention of increases of 50% and above in a single year. In fact I would like the maximum percentage increase allowed to be lower than 50%.

The fact that insurance companies can increase their premiums by any amount at any time for no reason is indecent. The general insurance market is totally unregulated.

19. Repair Quotes and wasting money

"I believe it is unacceptable that insurance companies penalise the Far North using the pretext of living in a cyclone prone area. This has become more evident when they require a building that has withstood the elements, including cyclones, for several decades suddenly require the roof to be upgraded to a building code that was not in force when the building was constructed. It appears to me that there are many sudden, unnamed storms that cause as much or more damage in the South East of the state, but with the "stigma" of living in the tropics, we are seen as a soft target."

Insurance companies are wasting their money and, therefore, our money. Surprise!!!

We need the best and most efficient quote for repair work accepted by Insurance companies.

Insurance companies are using (in Queensland) contractors from the south east to do repairs in the north. They are not taking local quotes, and are not listening to their clients when they complain the company is being ripped off.

We need insurance companies to get 3 quotes for repairs, one of which must be a local contractor – they can ask the owner to do this for them if it's too much trouble for the company itself. The 3 quotes should be presented to the owner as proof the legislation has been adhered to, with an explanation as to why the accepted quote was chosen.

Insurance companies have been complaining they are spending more than they are getting in. However, look at these examples.

"We are being ripped off! My premium has increased by 280% in the past 2 years. After Cyclone Yasi I had a claim - a local builder mate of mine assessed the damage and said $9000 would fix the repairs. The insurance mob, hired a Gold Coast firm to do the repairs, the job was shoddy and I had to get them back to re-repair the work, during a conversation with the contractor, he revealed that he didn't mind coming back as there was 'plenty of fat' in my job, and the release proved that - they were being paid $31000 to do a $9000 job - that in a nutshell, is why my premium has increased, its nothing to do with the 'dangerous weather', its to do with the incompetence of the insurers and their resultant waste of money!"

A second example shows a job quoted locally in Townsville at $2,500 cost $16,000 through a south east company and they charged the insurance company for scaffolding – which wasn't used. The owner called his company to tell them they were being ripped off, but the insurance company said it wasn't his problem so long as the job got done.

As a Lawyer who signed the online petition wrote:

“The insurers have themselves to blame for the costs blow out from Yasi. I have heard of many cases where assessors appointed builders who had quoted silly amounts and got the jobs over local contractors who had quoted ½ or 2/3 of the amount of the successful tenderer. If it wasn’t crooked it was grossly negligent.”

Unfortunately it’s also been proved that some insurance companies don’t check whether the builders they employ have the correct tickets for the job, resulting in jobs needing re-doing. See “Seriously ugly” chapter. Scope of works are insufficient **AND** repairs aren’t being done according to Council regulations and standards.

This is a true story:

A house in the Whitsunday area was damaged due to TC Debbie, March 2017.

An Engineer was employed by the insurance company and spent 6 hours coming up with a scope of work. The owners were offered $18,000 as a cash settlement, and when the owners refused this amount it was intimated there may not be an actual pay out at all.

Fortunately, these owners are business people and fought the decision.

Another Engineer came, he turned up with no pen, no paper, no tape measure to develop another scope of work, but didn’t get into the roof because it was “way too hot”. He spent 21 minutes on site.

The owners were then offered $70,000.

The property was moved into during May 2018. The scope of work was eventually signed off at $189,000 with an additional $55,000 in variations to the scope and an additional $38,000 for temporary accommodation.

There are still some outstanding issues: the new guttering and down pipes go straight to the ground although Council insists they have to go to a storm water drain; under the brand new roof water proofing is missing in some places which the builder states is OK but is included in the scope of work – does this mean the roof has to come off again?

AND I know for certain when other people called their insurance company after TC Debbie to claim on contents insurance for food in fridges and freezers which had to be thrown away, multiple times the claim was $200 but they were told the minimum amount that could be claimed was $500 so “We’ll just make it that, shall we?” was the attitude of the insurance companies.

I went through TC Debbie and I realise the last thing people need is to be told they can’t claim for ruined food because the claim isn’t high enough but instead of encouraging people to claim more, reduce the excess so they can claim the correct amount instead.

In case you’re wondering, we didn’t claim.

20. Councils

There are some local Councils who forget to take into account cyclones and floods in some of their decisions on what to build and where.

Councils should be accountable for their actions and be made to adhere to legislation and the Planning and Development Approval System.

There is an argument that if an owner or developer has built on a known flood plane without proper drains etc. or in a cyclone area without adhering to the building rules but the property is then passed by a Council then the owner/developer/Council should take responsibility for any damage.

21. Compulsory flood cover, compulsory cover for anything

If we knew how a premium was made up and what the costs of various components were then owners would be much more inclined to take action to reduce the possibility of a claim in order to reduce a particular section of the premium.

We need the component of a premium clearly shown and to be able to opt out of various covers we don’t need.

People know if their property floods or not. People don’t need cover for tsunamis when they live at the top of a hill. People don’t need cover for cyclones when they’re not in a cyclone area, even if they have a postcode the same as a place that is in a cyclone area.

22. Retainment of profits

I understand, and I maybe wrong so someone would have to check, insurance companies cannot keep profits in good years to help them through the bad.

Profits go to shareholders.

If this is true, it's a shame as it leads to peaks and troughs.

23. A Mutual, Government or Not

I realise this was explored by the NAIP Taskforce. However, the final report was severely flawed, in my opinion, as you will see in the chapter "Successes and Failures".

In March 2015 the Cairns Chamber of Commerce suggested the idea of a mutual which would be "owned by the people of North Queensland for the benefit of the people of North Queensland" to provide affordable insurance and availability for private households, bodies corporate, strata title owners and small to medium businesses.

The, then, incoming chamber president Sam Marino said the scheme would not be competing with existing insurance companies but that the mutual would work with existing companies by providing catastrophe cover. Conventional insurers would continue to provide traditional cover, such as fire and theft, while natural catastrophe cover would be dealt with via a mutual structure owned by the community of Northern Queensland and controlled and administered by an entity established by the Cairns Chamber of Commerce.

Unfortunately it didn't go ahead.

Back in 2017 The Hon Warren Entsch MP, on behalf of Coalition MPs in Queensland, submitted a model for a mutual along with Regis and reinsurance firm Willis Re and was assessed by the Department of Finance and Treasury.

Under the suggested scheme, the Federal Government would underwrite a new mutual, to be managed by Regis, which would be "owned" by policy holders, to provide basic cyclone coverage for residents in Northern Australia. However, the ICA and its members don't like the idea of any Governments interfering in the market.

Under Mr Entsch's model, all residents of Northern Australia would be required to take cyclone insurance from the new mutual as a basic policy and then add to their coverage through private insurance.

I can see problems with this but at least it was another start. However, the Federal Government chose not to go down this path.

"So, once again, we get shafted by "big business" that contributes to the political parties. Turnbull has no clue about the real world but neither do any of the others - I doubt that a Labour government would react any differently either so we will continue to lose. It probably needs a mass demonstration at the door to National Parliament, to at least raise the subject in the news and current affairs media. The problem with that is that we're all too busy working harder and longer, to raise the extra money that we continue to bleed." **Cairns**

However, within the last few months a new player has looked at this type of option yet again.

It was originally called SWARM but has since been renamed. I understand the entity is currently being examined by the ARPA for registration. I don't know much about it as it is highly confidential but I understand several ex senior figures from various insurance companies are involved. It is said to be a non-profit alternative form of insurance which suggests it's based along the lines of the USA company Lemonade.

Townsville Bulletin 20 June 2018

Power to the people as alternative insurer prepares to launch

ALICIA NALLY

AN alternative insurance provider is set to be launched next week in an effort to combat the astronomical price of home and contents insurance in the North.

Leichhardt MP Warren Entsch said the final checks and balances on a mutual organisation were being completed, which would be owned by northern Australian policy holders.

The news comes as the Australian Competition and Consumer Commission released an update on its Northern Australia Insurance Inquiry this month. About 150 people participated in eight public forums held in Townsville, Cairns, Rockhampton, Mackay, Darwin, Alice Springs, Broome and Karratha.

The summary revealed the great emotional toll the rising cost of home and contents insurance had on residents, with some facing bills of up to $10,000.

Submissions by the National Insurance Brokers Association showed premiums in northern Australia now reflected the true cost of risk but there was little choice in insurers. The group also claimed supplying insurance in North Queensland was "not very profitable".

Mr Entsch said little competition in the northern market meant profits would have to be considerable.

He said the new insurance entity would pay dividends in the form of a reduction in premiums.

"Insurance companies are there for the shareholders. This is where the model is broken," he said.

"They'll always argue the way to fix it is mitigation.

"They argue they're not making money but the profits just keep going through the roof."

24. Strata Insurance – change the legislation

This isn't my idea either, it's the concept of Stephen Malcolm, ABSCAN Building Consultants Townsville.

Currently all strata properties have to be insured for full replacement value including: clearing the land; Engineer's fees; rebuilding from scratch; all costs etc. etc. etc. As a result strata buildings have to be valued for replacement costs every 5 years.

Stephen came up with the idea of having a Building Consultant or Engineer conduct a proper risk assessment on a property and determine just how much damage the expert thinks would occur during various categories of cyclone then insure for the maximum amount of damage envisaged.

Simple really.

Then add any extras such as business interruption, office bearer's coverage, loss of income, etc. etc.

So a complex that went through TC Debbie, for instance, which came out with $200,000 in claims after a direct hit could be considered as having a potential maximum building damage bill of $300,000 in a cat 5 cyclone. So insure for building damage of $300,000 instead of full replacement value of $13.5M.

It makes sense to me.

AND if the assessor is proved to be wrong, then they carry their own professional liability insurance anyway.

25. Australian Reinsurance Pool Corporation

Expand the role of the Australian Reinsurance Pool Corporation.

Currently it only operates for terrorism but instead of creating a new reinsurance pool entirely, let's look at expanding the existing one to include all natural disasters, not just cyclones.

After all, a solution isn't really a solution if it can't be applied to other problems.

I realise this was explored by the NAIP Taskforce. However, the final report was severely flawed, in my opinion, as you will see in the chapter "Successes and Failures".

If the pool was only to be accessed for a declared natural disaster after the first agreed amount per event (Allianz suggested $1B) the pool should build up over a period of time and not require any top-up from the Federal Government.

The people running the Reinsurance Pool are certain they can run a bigger one, or another one, successfully, and they have shown their ability already.

26. Adaptation of the Reinsurance Pool

There is precedence for this idea.

Regularly insurance companies announce an increase in net profits of 37%+, which equates to an increase of $1.1B.

If $1.1B = 37% then total net profits should be in the region of $2.97B per annum.

If insurance companies, all of them, put 1% of profits per year into a central pool for claims in the case of national or regional disaster, this year alone they would have contributed $29.7M. *(The amount could be matched, or not, by Federal Government.)*

We do have years without a catastrophe. The pool would slowly build up and be able to cover extreme circumstances without having a major effect on the profits of the companies.

The pool could be managed by the insurance companies or the Insurance Council of Australia or someone else. When it got to a healthy amount the companies might decide to use some of the money in prevention, such as choosing to build levies etc. Towns could apply for grants.

Being controlled by the insurance companies themselves mean it cannot be seen as a tax, just a way of mitigating their risk and preventing the peaks and troughs of insurance in Australia. AND if we aimed at grants for the future then it would be good publicity for an industry which looks dreadful at the moment.

Premiums would go down across Australia as the pool increased, and natural disasters would be covered and have very little effect.

Lloyds of London works in a slightly similar way. Anyone wanting to become a 'Member of Lloyds' pays a non refundable amount to a central pool. This pool isn't touched unless there is a circumstance where an Underwriter cannot cover their claims, then the pool is used to pay the excess. It is HUGE and has been used in the past to cover bad debts. Basically, Lloyds of London underwrites itself.

This would work in a similar way. Maybe we would get into a situation where Australian insurance companies wouldn't need international underwriters.

- People who cannot afford their insurance (mandatory or not) would benefit
- Insurance companies would benefit by removal of the peaks and troughs
- Those not currently taking out insurance due to the cost would be able to do so, raising profits for the insurance industry
- Towns where disasters could be prevented would benefit from grants
- STABILISATION!!

27. Regulation

"There is no market competition currently with insurance companies and there is no governing body to ensure that increases in premiums are in line with general inflation. Insurance companies expect to recoup their losses in the following year, so what will move their prices back down in the following years. An increase of 200%- 500%, why not make it a 10000% ?" – They did.

Self regulation of the insurance industry is not working, that much is very clear or I would have a life by now.

As someone on my petition wrote:

"Insurance is not discretionary (strata and properties with common areas such as retirement villas have to have insurance for full replacement value), it is like water and electricity, and should have the same kind of independent authority monitoring price rises."

If the industry cannot self regulate under the Insurance Council of Australia (and it seems it can't), then we need an independent authority **NOW**!!!

I also like:

"Companies who insure risk should be companies who share risk."

Unfortunately this isn't happening.

28. Insurance parity between types of property

It would be nice to have similar premiums from insurance companies for properties of the same value in the same location.

- Apartments, townhouses, units, retirement homes, and houses of a similar value in the same location have largely differing insurance premiums – and I mean LARGELY differing

- Apartments in tourist complexes have higher premiums than pure residential apartments, although residential properties have a higher wear and tear, being almost 100% occupied and tourist properties have a lesser percentage occupancy.

Checking the statistics and actual cases in Brisbane, Whitsundays, Townsville and Cairns, it would seem there is a form of parity in Brisbane, but not elsewhere, possibly because there's less competition in the strata insurance market.

29. Insurance Watchdog

It has been clearly demonstrated insurance companies are not taking into account mitigation projects already undertaken, or the fact newer properties may not require mitigation. There is no assurance the insurance companies will take into account future mitigation projects, although they have said they would permit a 20% discount over 2 years whilst their approved projects are being undertaken.

Example 1 Someone working for the JCU Cyclone Testing Centre replaced the entire roof on his Queenslander, including joists, and added tie downs, when I last spoke to him the upgrade had made no difference to his premium. The cost would have been in the vicinity of $25,000-$30,000 and his insurance premium is >$4,000. He has now received a discount of 16% after more than 1 year and is just under the $4,000 premium.

Example 2: Magnetic Island – *"We also had a Vero Risk Consultant, Corporate Portfolio & Underwriting Management, visit our site to do a risk survey assessment. He went over the full site and confirmed there was no further action the Body Corporate Executive could take to mitigate risk. He was also made aware that we had no claims as a result of Cyclone Yasi and that the building was built in the last 8 years to cyclone resistant specification. Yet our premiums have gone up over the last 4 years from $10,000, to $17,000 to $48,000 to $52,000 this year."* The report was ignored for the next year's quote, their premium quote from Vero went up again to $56,880. They are now insured with QBE at $52,635. The unit owners have gone from $770 per unit to over $4,000 per unit.

Example 3: In 2014 a complex in Airlie Beach undertook a complete repaint of all buildings in the complex (7 in total) using a water membrane paint, so preventing any water ingress at a cost of $150,000 + GST. This has been ignored.

Example 4: A journalist for the Townsville Bulletin had his roof replaced on his Queenslander to upgrade it to cyclone 5 standard and has now received a discount of... 3%

It is the general consensus amongst non-insurance stakeholders that the insurance industry requires further regulation and a Watchdog, with the Chamber of Commerce and Industry Queensland even stating in section 5.0 Queensland Business Insurance Report July 2015: "*The ICA also recommended that further work needs to be done on behalf of the Federal Government to ensure that there is appropriate regulation of the insurance industry"*

I would like to make sure, since further regulation is required, that any Watchdog be independent of the insurance industry itself, as suggested in other submissions to the Taskforce, and be implemented as soon as possible to ensure properties who are doing the right thing get acknowledgement and, as a result, premium relief.

If a property has been properly assessed as being a low risk, then the owner needs to be guaranteed low premiums or the insurance company must explain why.

Never again should insurance companies be permitted without question to raise their premiums 200-500%+ overnight without warning or explanation of reasons.

30. Compensation

Year after year insurance companies are announcing billions in nett profits.

Any substantial increase in profits is obscene given the suffering owners are going through. It also goes to prove that insurance companies are still incapable of calculating premiums in order to maintain profit but still allowing premiums to be affordable to owners.

Whilst I understand shareholders require profits, an increase of large amount in profits at this time is beyond belief.

- Reimburse or credit those properties who have already been "Rorted" by excessive premiums. A refund of anything over a 100% increase

It may be too late to help those who have already lost their homes, but so many others are close to the edge.

31. Political Donations

We're stopping political donations by developers.

On 7th December 2016 it was reported by Ashlynne McGhee, political reporter for the ABC News, that the most generous industries for donations to political parties over a 17-year period were:

- The property industry — $64,099,161
- Financial and insurance industries — $37,078,539
- Pharmaceutical/health — $12,625,078

I suppose that says it all.

"Our insurance premiums are not affordable - pure and simple"

32. MY Proposal

Summary

I have expanded an infant idea I put to the NAIP Taskforce[1], namely:

- To develop a proper way to risk assess a property, determine resilience and identify mitigation projects, if appropriate
- To consider an alternative idea which identifies possible damage due to a natural disaster and calculates the cost of rectifying that damage and therefore, identify risk
- To develop a risk rating score which can be applied to all properties
- To develop a system to benefit all properties in Australia and not just Northern Australia, as no-one should have to go through what the people of North Queensland have gone through since 2011
- To implement an Insurance Industry Watchdog to ensure risk assessment and property resilience is taken into account when determining premiums

The proposed project would involve:

- James Cook University (JCU) Cyclone Testing Centre, Townsville
- Building Consultants
- Consumer Representative

The project would expand on existing work already undertaken by JCU Cyclone Testing Centre in conjunction with the ICA and Federal Government, and could result in premium parity throughout Australia.

Important points for consideration:

1. According to IAG[2], the biggest insurance group operating in Australia, 30,000 households are dropping out of the insurance market **every year**, and the crisis is affecting **3,000,000** Australians. They are concerned, as they should be, and recognise a solution is required not just for North Queensland but for Northern Australia as a whole, and possibly the whole of Australia

2. 14% of Australians pay more than 2 weeks average salary on their insurance[3]

3. I keep regular communication now with Northern WA and the Indian Ocean Territories who also have serious insurance problems. North WA is in a similar situation to NQ with premium increases of over 330%, including high premiums for areas not in a cyclone zone[4]

4. The TIO (Territory Insurance Offie) was sold to Allianz in February 2015 and now the NT are experiencing huge premium rises[5]

5. Solutions should apply to any permanent property you can legally live in no matter whether owner occupied or tenanted

6. The terms of reference of the Taskforce very specifically mentioned “cyclone risk”. I think it would be a waste of time to come up with solutions which couldn’t in the future be expanded to include other disasters such as floods, earthquakes, tsunamis or bushfires because “a solution that cannot be expanded, if required, is no real solution at all”[6]

7. Business insurance in North Queensland has risen by up to 2,544% in a single year. Over 51% of businesses in Qld have reported decreased profitability in their everyday operations as a result of rising premiums. Another 26% reported decreased investment as a result of higher insurance costs[7]

8. *“High insurance premiums can contribute towards lower consumer consumption and reduced levels of confidence. Further, they will contribute to higher prices for goods and services in the region. They are likely to discourage investment, particularly in areas identified as high risk, as well as discourage people moving to these areas. Consistent with this, data from the Cairns Regional Council shows a significant decline in both employment and output in the Cairns building construction industry between 2008-09 and 2013-14.”*[8]

9. Business insurance in Mackay (North Queensland) is higher than even Port Hedland (Far North WA)[9]

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[1] NAIP Focus Questions Response 22nd August 2015 – Margaret Shaw
[2] IAG own: CGU, NRMA, RACV, BUZZ, SGIO/SGIC, SWANN, SUU, WFI, LUMLEY, COLES
[3] Actuaries Institute’s response to the Productivity Commission’s Issues Paper on *Natural Disaster Funding Arrangements* (‘discussion paper’) released for consultation in May 2014. *“Insurance is becoming unaffordable for some parts of the community, especially those living in areas at high risk of natural perils such as flood and cyclone and to a lesser extent bushfire.*
[4] Study on insurance and banking in the Pilbara August 2015
[5] TIO price backlash January 18, 2016 1:39pm CRAIG DUNLOPNT News
[6] Margaret Shaw
[7] Chamber of Commerce and Industry Queensland July 2014
[8] NAIP Taskforce interim report August 2015
[9] Study on insurance and banking in the Pilbara August 2015

10. Rural insurance is now almost impossible to get with only 1 company quoting[10] that being Elders owned by QBE, putting an extra strain on the debt of farmers and graziers alike

Expansion of work already undertaken and paid for.

The ICA and Federal Government have already undertaken projects in conjunction with JCU Cyclone Testing Centre, Townsville, to identify where most cyclonic damage takes place and how it is caused.

I have been talking to ABSCAN Building Consultants. ABSCAN provides Insurance Valuation Reports for most of the Body Corporate Managers in Townsville and are experienced and recognised Building Consultants. My initial meeting with them was on 3rd March 2016. They have already been involved with Professor John Ginger of the JCU Cyclone Centre and we had a meeting with all interested parties including Dr David Henderson of the JCU Cyclone Centre. I subsequently had a further meeting with ABSCAN on 7th March 2016 in Townsville and have kept in contact with them.

A couple of options have arisen:

1. **System already developed (paper based)**

It seems as far as <u>strata properties</u> go, the JCU Cyclone Centre has already designed, detailed, produced and tested a risk assessment product/checklist which results in an overall rating. This system is paper based only, at the moment.

It consists of 3 areas: building assessment and rating; storm surge and flooding rating; stupidity rating. Yes, they have a complete section on whether there is pool furniture, balcony furniture, sails etc. and what would happen if they were left out.

Dr Henderson says the full system has been with the State Government Department of Housing and Public Works for nearly 3 years. It needs to be developed into an ipad/laptop/tablet system for use on site. Dr Henderson's estimate was that if left to the State Government to develop it could cost $600,000. I suggest If developed privately it would be less. They've been waiting for the $12.5M to come in before development, so since the $12.5M is still in limbo it could take years more.

After development, engineers, building consultants etc. could go to a strata property tick off their checklists and produce a building rating. The system has been developed with consideration to insurance companies and their systems so it fits in with current processes. Personally I can't see it, unless he's only thinking of large complexes. There are no current processes as far as I know (except RACQ and Suncorp recent changes) that take into account a building's resilience as defined by anyone.

Dr Henderson estimates it will take a qualified person 1 – 1 ½ hours to complete and probably cost around $1,200 but the report would remain the property of the complex.

The proposed system also includes education for "experts" to be able to use the system.

This is the Rolls Royce of systems, in fact it's the Rolls Royce of Rolls Royce of systems, whereas ABSCAN is suggesting a Toyota.

Alternative proposed system

Despite what we understand the insurance companies are telling State and Federal politicians, experienced and qualified building consultants assure me they can provide a reliable and quality **Cyclone Damage Risk Assessment** (if a category 5 cyclone was to hit this property, what would the damage likely to be and what would it cost to repair it) for each dwelling, or building, based on a simple checklist, upon which insurance companies can calculate the cost of the Building Insurance which more appropriately reflects the risk[11].

Currently, insurance companies do not know what they are insuring (ABSCAN) - "Currently risk is assumed and not assessed!!"[12]

ABSCAN believes things should be a lot simpler and rely on science, actual building and actual location. By the way this company uses drones to examine rooves. ABSCAN argued the "stupidity" section as designed by JCU was useless and everything else was too complicated. I agreed with them on the stupidity angle up to Warren Entsch's 4CA interview where he said the ICA say the majority of claims come from things like pool furniture – not looking so stupid after all.

After more than two hours of the meeting both parties agreed a risk assessment checklist resulting in a risk rating for a property was not only feasible it was necessary **<u>so long as</u>** there was some way to ensure the insurance companies would take notice of the results.

The question is which of the 2 proposed options we go with, if we go with either.

$12.5 million was allocated over three years in the Federal budget 2014 for engineering assessments of strata properties.[13] I still have no idea where this money is although I understand the 2014-2015 portion has been moved to 2017-2018 as no-one accessed the 2014-2015 amount, and the 2015-2016 portion has also been moved. I was assured by the Queensland Premier's Office at a meeting 29th October 2015 in Brisbane that the State Government does not have the money even though it has been allocated by the Federal Government, and

[10] Andrew Jensen, Charters Towers 2016
[11] Stephen Malcolm Managing Director ABSCAN
[12] Margaret Shaw
[13] Budget paper no. 2. Also reported http://www.insurancenews.com.au/analysis/2014-budget-a-mixed-bag-for-insurance

in a meeting with Minister Mick De Brenni in 2016 it was made clear the money would not be accepted until they did know how to administer it.

Either report could lead to parity in the industry.

For strata properties (the only properties currently specified for the $12.5M) these reports not only define what mitigation a property may require but also which properties **do not require** mitigation, i.e. a high proportion of the newer buildings. This information should be used by insurance companies to reduce the premiums for post 1982 properties, those not covered by the suggestions of the ICA and Suncorp[14] who particularly specify pre 1982 buildings, owner occupied, and the owners on low income. These stipulated restrictions do not offer benefit, or help, to post 1982 properties built to cyclone standards experiencing unaffordable insurance premiums. Neither do these restrictions bring any help or relief to tenants, a lot of which rent pre 1982 properties, as non-owner occupied properties have been ignored. This means there is no ability for Landlord's to pass back savings on insurance in the form of lower rents. According to Property Managers in Cairns rents have increased by up to $40 per week due to Landlord's passing on their insurance costs[15] with some lower income people now spending more than 50% of their income in rent.

Catastrophe Cover:

In the event a Body Corporate decided to spend thousands of dollars mitigating their property against cyclone damage, it should be with the full knowledge of the insurance premium deductions and other benefits that would result[16]. I totally agree.

Insurance companies add up to 35% catastrophe cover to Replacement Building Insurance Valuations for strata properties, apparently included for higher damage rectification costs by contractors due to the high volume of work and, loss of rent/temporary accommodation costs.[17]

If a house or strata complex was made almost 100% resilient to a peak design tropical cyclone event (which insurance companies and JCU engineers obviously believe is possible), or the properties are recognised as not requiring mitigation projects, there should be no Catastrophe Cover applied to the Insurance Valuation. This is an automatic reduction in premium cost, particularly for newer properties.

Expanding the checklist/report after development

After the initial development of the mitigation checklist (let's call it that to keep the ICA happy) I suggest we expand the concept to produce a true "risk rating" score[18].

Once the mitigation checklist has been produced and is in use, then we can look at expanding the concept to deliver a complete risk rating score for a property. This risk rating should be based on the perceived damage which could occur, and actual risk to a property.

If proper risk assessment is undertaken by use of the 'mitigation checklist' and risk assessment reports are produced with a given risk rating based on the likelihood the property would sustain damage due to a natural disaster then all properties with the same risk rating should be quoted the same base premium by an insurance company.

Then adjustments could be added for pools, lifts, playgrounds, business interruption etc.

In this way a property would get a final risk rating based on set parameters, their structure and including their risk of being damaged due to bush fires; cyclones; floods; storm surges; hail etc. It would become simple, since all buildings with the same risk rating should be quoted the same base premium by a company NO MATTER the location of the building, which has become irrelevant.

Parity for all buildings with the same risk rating throughout Australia!!

The expansion of the Damage Risk Assessment/mitigation checklist to include a full risk rating could be undertaken by the JCU Cyclone Testing Centre in conjunction with Building Consultants and a Consumer Representative.

The cost and feasibility of this is yet to be determined but, if feasible, should not be excessive.

Once we have a risk rating in place then competition should come back into the market as there will be no reason for an insurance company to not insure in Northern Australia since the properties will be fully (and properly) risk assessed.

[14] Build to last, A protecting the north initiative – Suncorp 2015
[15] Linda Tuck – Property Development Ladder, Cairns
[16] Stephen Malcolm Managing Director ABSCAN
[17] ABSCAN Building Consultants, Townsville
[18] NAIP Focus Questions Response 22nd August 2015 – Margaret Shaw