



Suncorp Group Ltd
ABN 66 145 290 124

10 Shelley Street
SYDNEY NSW 2000
Telephone: 02 8121 3100

25 January 2018

[REDACTED]
Australian Competition and Consumer Commission
Northern Australia Insurance Inquiry
GPO Box 520
Melbourne VIC 3001

By email: insurance@acc.gov.au

Dear [REDACTED]

Suncorp would like to provide the attached submission to the Australian Competition and Consumer Commission (ACCC) as part of the Northern Australia Insurance Inquiry.

We welcome the opportunity to present our views and perspectives as well as some pertinent facts regarding the broad range of subjects in the ACCC's Issues Paper released last year.

Suncorp's five key points are as follows:

1. Natural hazard risk is a primary driver of insurance costs in northern Australia.
2. Insurers must factor the risk of future catastrophes into northern Australia premiums.
3. There is no evidence of market failure or widespread affordability problems in northern Australia.
4. A lack of disaster mitigation and sensible planning, as well as a 'double tax' on insurance, have impacted on northern Australia policyholders.
5. The only sustainable way forward for northern Australia is a strategy focussed on mitigation, climate adaptation and tax relief.

Suncorp will continue to assist this inquiry as required and looks forward to the ACCC's first report later this year. Should you have any questions or require further information, please do not hesitate to contact Joshua Cooney, Senior Manager Government, Industry and Public Policy on (07) 3135 2421 or joshua.cooney@suncorp.com.au.

Regards,

A handwritten signature in black ink, appearing to read "Gary Dransfield". The signature is fluid and cursive.

Gary Dransfield
CEO Insurance



Submission to the Australian Competition
and Consumer Commission
Northern Australia Insurance Inquiry

—
Create a better today





Table of contents

Executive Summary	3	Why Northern Australia Is Different	19
About The Suncorp Group	5	OLDER HOMES ARE PARTICULARLY VULNERABLE TO CYCLONE DAMAGE	19
SUNCORP'S STRATEGY	6	BUILDING CODES COULD FURTHER PROTECT BUILDINGS AND REDUCE DAMAGE	19
Introduction	7	EXPOSURE TO FLOOD RISK	20
THE TRUE COST OF CYCLONE RISK	8	HIGHER BUILDING COSTS	22
A SUSTAINABLE SOLUTION	8	THE EFFECT OF TAX ON PREMIUMS	22
A LONG SERIES OF INQUIRIES	8	A Competitive Industry	23
MISGUIDED POLICY SOLUTIONS	12	Customer Outcomes	26
A CHANGING CLIMATE	12	AGGREGATORS - BAD OUTCOMES FOR EVERYONE	26
How Insurance Premiums Are Priced	13	TRANSPARENCY AND DISCLOSURE	27
CAPITAL REQUIREMENTS	13	EXCESS AND POLICY COVERAGE	27
PREMIUMS IN NORTHERN AUSTRALIA	13	REPUTATION	27
HOW WE PRICE	14	BROKER CHANNELS	29
MANY FACTORS USED IN PRICING	15	TAKE-UP RATES OF INSURANCE	29
RISK-BASED PRICING	16	SWITCHING INSURERS	29
CYCLONE RISK	17	IMPROVING AFFORDABILITY	30
		THE BENEFITS OF MITIGATION	30
		REGULATION OF POLICY INFORMATION	31
		UNFAIR CONTRACT TERMS	31
		Conclusion	32

Front Cover: Cyclone Debbie damage in North Queensland, April 2017



Executive Summary

1. Natural hazard risk is a primary driver of insurance costs in northern Australia

- Northern Australia has only 5 per cent of the national population, yet has borne approximately 20 per cent of Australia's natural disaster insurance costs since 2006.
- 30 cyclones have made landfall in northern Australia since 2006.
- Insurance Council of Australia (ICA) statistics show more than \$5 billion in cyclone and flood disaster insurance costs have impacted northern Australia since 2006.
- Independent analysis from the Australian Government Actuary found insurers paid \$1.40 in claims for every \$1 collected in home insurance premiums over an eight-year period (from 2005-06).
- Cyclones can devastate communities, hurt economies and ruin Government budgets. Cyclone Debbie (March 2017) is now Queensland's costliest cyclone, surpassing \$1.5 billion in insurance losses.
- Cyclone peril is a significant part of the difference between premiums in northern Australia and premiums in southern Australia.

- Flood cover was until recently not offered by many insurers but is now an important feature, increasing the claims cost for insurers and premiums for approximately 20 per cent of northern Australia policyholders. Many parts of northern Australia are flood prone as well as being vulnerable to cyclone.

2. Insurers must factor the risk of future catastrophes into northern Australia premiums

- Industry-wide risk-based pricing means regions with high to extreme risk will pay more for their insurance than other parts of Australia.
- Insurers have strong regulatory obligations when pricing - the Australian Prudential Regulation Authority (APRA) is increasingly attentive to the need for insurers to have adequate capital reserves against growing climate risk.
- Last year was the worst year on record for insured losses from natural catastrophes around the world - US\$135 billion - according to global reinsurer Munich Re.
- A model Suncorp uses to project risk shows that in any given year there is a 1 in 100 risk cyclones could cost as much as \$7 billion.

- A recent Deloitte Economics analysis indicates the total annual economic cost of recovering from natural disasters will approach \$40 billion by 2050, if the risks are left unchecked. Queensland will account for nearly half the burden.

3. There is no evidence of market failure or widespread affordability problems in northern Australia

- Inquiries have found the insurance industry is a highly competitive market.
- Despite the volatile and extreme weather, Suncorp offers a variety of insurance brands and products in northern Australia for homeowners, renters, strata complexes, and small businesses.
- Suncorp continues to compete with many insurers in the North Queensland market - right now, there are only three less home insurance brands in Cairns, with a market share over one per cent, than there are in Sydney.
- Analyses completed for previous inquiries revealed 97 per cent of home insurance policyholders in North Queensland have paid less than \$3,000 for their home insurance.

EXECUTIVE SUMMARY

- Previous polling found 95 per cent of homeowners in North Queensland have building insurance, consistent with national figures.
- Customers are not exercising their choice to adjust excess to reduce premiums with no trend toward high excesses in high risk locations - 92.5 per cent of North Queensland policyholders are choosing an excess of \$1,000 or less.
- Customers are renewing their policies – for example, Suncorp’s renewal and retention rates have been higher in North Queensland than in NSW.
- Switching insurers is very easy with most policies covering a 12-month period and giving consumers the ability to pay monthly instalments which provide enormous flexibility and freedom for ‘shopping around’.

4. Lack of disaster mitigation and sensible planning, as well as a ‘double tax’ on insurance, have impacted on northern Australia policyholders

- The risk in northern Australia is only increasing as the region becomes more developed and new communities are placed in harm’s way.
- On last count, 97 per cent of natural disaster funding was spent on recovery, leaving only 3 per cent on prevention and preparedness.
- Exacerbating the problem, is a ‘double tax’ that all Queenslanders pay on home insurance. A \$2,500 home insurance technical premium becomes a \$2,997.50 premium once GST and stamp duty are applied – \$497 in taxation. The more northern Australians pay for their risk the more tax they pay.

- The National Construction Code only sets minimum standards for the strength and structural integrity and does not ‘cyclone proof’ a home. Modern homes are still vulnerable to a range of cyclone impacts.

5. The only sustainable way forward for northern Australia is a strategy focussed on mitigation, climate adaptation and tax relief

- Numerous studies have found that investment in mitigation delivers strong economic returns. It pays for itself many times over through a range of preventive benefits.
- Suncorp’s Protecting the North program is a major insurance, economic and safety initiative for North Queensland.
- At the heart of the policy program are practical solutions to tackle insurance affordability by reducing cyclone risk and rewarding mitigation activities that strengthen homes and communities.
- Protecting the North commenced in 2014 with a research program conducted in partnership with the Cyclone Testing Station (CTS) at Townsville’s James Cook University (JCU), aimed at better understanding cyclone impacts.
- As an acknowledgement to those customers who have strengthened their windows, roofs, sheds and garages, Suncorp introduced the award-winning Cyclone Resilience Benefit. The Benefit has lowered premiums to more than 35,000 customers in northern Australia by up to 20 per cent.
- Suncorp has launched an innovative and competitive strata insurance product, and low-interest personal loans for mitigation activities and is carrying out further research with the CTS which will drive additional streams of work, particularly around strata.

- Suncorp has developed a policy proposal that builds on Protecting the North and includes:

- A Cyclone Resilience Benefit that reduces insurance premiums for mitigation activities
- Tax relief on insurance premiums
- Improved building standards and planning laws
- A climate adaptation study for North Queensland
- Funding assistance for resilience enhancements
- Educational and behavioural awareness campaigns.
- The key benefits outlined in the proposal are:
 - Making insurance premiums more affordable
 - Keeping families safe
 - Creating jobs
 - Stimulating the North Queensland economy
 - Growing confidence in the North
 - Future proofing communities for the consequences of a changing climate.

The policy proposal to achieve the above objectives is attached to this submission.



About The Suncorp Group

Suncorp Group Limited is a trusted provider of financial services and solutions, helping customers to make good choices and take positive action to improve their financial wellbeing.

We are a proud Queensland-based company, creating value for stakeholders while being a responsible and resilient business since 1902.

Today, we are a top 20 ASX-listed company with \$97 billion in assets. We employ approximately 13,400 people and serve close to nine million customers across Australia and New Zealand.

Our Marketplace of products, services and experiences is designed to make it easier for our customers to meet their financial needs. It brings together our strong portfolio of banking and wealth and insurance solutions from across our many brands including Suncorp, AAMI, GIO, Apia, Bingle and Shannons, as well as those from our partners.

Suncorp has been protecting the Queensland way of life for more than 100 years. We have stood by North Queenslanders during some of their darkest moments including Tropical Cyclone Larry in 2006, Tropical Cyclone Yasi and the Queensland

floods of 2011, Tropical Cyclone Marcia in 2015 and, more recently, Cyclone Debbie in 2017. We have rebuilt and repaired 100,000 homes and businesses during these major disasters. We accept approximately 98 per cent of insurance claims received during these disasters and on average

pay out more than \$13.5 million in claims each day in Australia.

This submission will focus more on North Queensland than other areas as it is the most populated part of northern Australia and represents Suncorp's largest customer base.



Suncorp home insurance customer Paul Miller displays his appreciation in the aftermath of Queensland's 2011 summer of disasters. Suncorp photo.

ABOUT THE SUNCORP GROUP

SUNCORP'S STRATEGY

Suncorp's purpose is to create a better today for our customers, communities, shareholders and our people. Our vision is to be the destination for the moments that matter.

By placing the customer at the centre of everything we do, we have a deeper understanding of their needs and can

better support them when they need us most.

We continue to live our purpose and achieve our vision by working collaboratively as 'One Suncorp' team. We have increased our focus on building partnerships with third parties to extend the range of solutions for our customers and to drive growth for our business.



SUNCORP HAS BEEN PROTECTING AUSTRALIANS AND
THEIR HOMES FOR MORE THAN 100 YEARS

NEARLY
170,000

NORTHERN AUSTRALIANS HAVE SUNCORP HOME AND CONTENTS INSURANCE POLICIES



WE HAVE RECEIVED
20,000
CLAIMS FROM CYCLONE DEBBIE WHICH IMPACTED NORTH QUEENSLAND LAST YEAR



MORE THAN 35,000

SUNCORP HOME INSURANCE POLICYHOLDERS IN NORTHERN AUSTRALIA HAVE RECEIVED PREMIUM REDUCTIONS THROUGH OUR CYCLONE RESILIENCE BENEFIT.

ANNUALLY WE RECEIVE ALMOST
250,000 HOME INSURANCE CLAIMS AND **600,000 MOTOR INSURANCE CLAIMS**



IN 2016-17 WE PAID MORE
THAN \$4.9 BILLION IN CLAIMS, AVERAGING
OVER \$13.5 MILLION PER DAY

SUNCORP PAYS OUT AN AVERAGE 98 PER CENT OF HOME INSURANCE CLAIMS FOLLOWING NATURAL DISASTERS



SUNCORP HAS A CUSTOMER **SATISFACTION RATING OF 82%** HOME AND MOTOR BRANDS



IN EUROPE, CUSTOMER **SATISFACTION WAS RANKED 74%**



Introduction

NORTHERN AUSTRALIA'S WEATHER IS VOLATILE AND UNPREDICTABLE

Insurance in northern Australia is a tricky business. No other region in Australia experiences more volatile and unpredictable weather and it is more expensive to build and repair homes. Northern Australia is synonymous with extreme weather events.

Ultimately, insurance exists to protect people against unforeseen outcomes. We know this region will face future catastrophes. We are less certain on exactly when, or in which part of northern Australia, however we are certain they will occur.

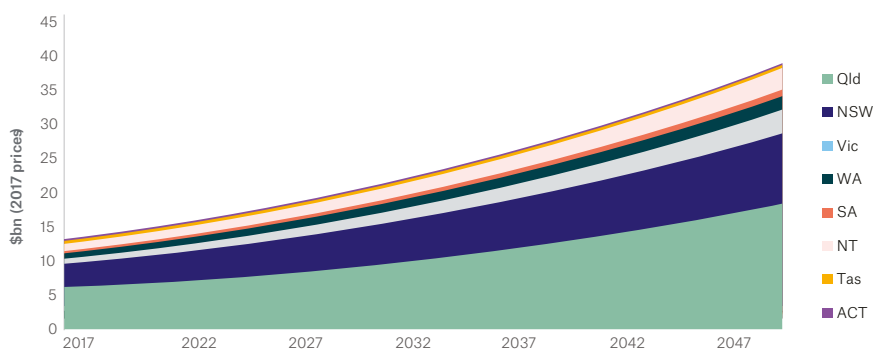
It is critical that insurers get their premium pricing absolutely right, otherwise they risk running at a loss in the region as they did in the years between Cyclone Larry (2006) and Cyclone Oswald (2013). Cyclones devastate communities with remarkable regularity, including our most populated part of northern Australia – North Queensland. Each year, several cyclones will approach our coastline and at least one will reach landfall. Since 2006, 30 cyclones have made landfall in northern Australia bringing damaging winds and severe floods to communities.

The risk to communities is only increasing as the region becomes

more developed and is impacted by climate change bringing more severe weather events.

Insurance Council of Australia (ICA) statistics show more than \$5 billion in cyclone and flood disaster insurance costs have impacted northern Australia since 2006 (2015 AUD)¹. For only 5 per cent of the national population, northern Australia has borne approximately 20 per cent of the country's total natural disaster insurance toll during this period. A recent analysis by Deloitte Economics indicates the total annual cost of recovering from natural disasters will approach \$40 billion by 2050, if the risks are left unchecked.² Queensland will incur the lion's share of these losses.

2017-2050 forecast of the total economic cost of natural disasters, identifying costs for each state and territory



Source: Deloitte Access Economics analysis

THE REAL PROBLEM

Suncorp notes concerns that are raised from governments, communities and customers about the cost of insurance in this important region. There is no doubt that people in Townsville, Darwin and Broome are paying on average more for home insurance than those living in Brisbane, Sydney and Melbourne.

However, it is important to understand that price is merely the symptom.

Northern Australia has a risk problem, not a pricing problem.

1. <https://disasters.org.au/data/>

2. Deloitte Access Economics (prepared for the Australian Business Roundtable for Disaster Resilience & Safer Communities), *Building resilience to natural disasters in our states and territories* (November 2017). Available online at <https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-economics-building-resilience-natural%20disasters-states-territories-161117.pdf>.

INTRODUCTION

There are policy solutions that can paper over the symptom with taxpayer subsidies for high risk properties and price comparison websites. But no market intervention can fix the fact that northern Australia will continue to experience devastating cyclones if measures are not carried out to protect communities from incurring devastating damage. Just one '1 in 250-year' cyclone could cause up to \$12 billion in damage, eclipsing the cost of the worst flood or storm that has ever occurred in Australia by a long way³ and insurers need to account for that.

Insurers have strong regulatory, market, and operational obligations to reflect this risk in their pricing. We need enough capital to pay every eligible claim.

THE TRUE COST OF CYCLONE RISK

High premiums are not the only consequence of unaddressed risk. In addition to the cost of repairing building damage, cyclones also have a significant social and economic impact on communities. The total national economic cost of natural disasters in the 10 years to 2016 has averaged \$18.2 billion per year, equating to 1.2 per cent of gross domestic product (GDP), according to the Australian Business Roundtable for Disaster Resilience & Safer Communities. Queensland has consumed 60 per cent of the national cost, at more than \$11 billion a year.⁴

Risk Frontiers estimates the social costs of disasters to be up to 200 per cent of insured property damage. In the case of Cyclone Yasi in 2011, these costs could have amounted to more than \$1.5 billion. This includes impacts such as:

- Death and injuries
- Loss of leisure time
- Higher crime rates

- Dislocation of families
- Community upheaval and disruption to local infrastructure
- Business interruption.⁵

The World Health Organisation also estimates that severe mental health disorders across the population can increase by one per cent following a large natural disaster.⁶

A SUSTAINABLE SOLUTION

We cannot change the fact that cyclones are a part of life in northern Australia. What we can do is minimise the likelihood of cyclones becoming catastrophes that kill Australians, displace families, cripple economies, ruin Government budgets, and cause widespread heartache and a range of social problems in devastated communities.

Although Australia is a high-risk country in terms of natural hazards, it does not necessarily need to be a country of high insurance premiums. Many homes in northern Australia are simply not built to be cyclone resilient. Building codes focus on saving lives only, and don't do enough to minimise damage. Older properties may not even meet the minimum standard. In fact, Suncorp estimates that up to 100,000 homes in this region fall short because they were built before the current cyclone standards were introduced.

Continued development in high risk areas also contributes to increasing damage bills. Measures that increase community resilience will reduce the frequency and cost of claims, and generate lower insurance premiums. Resilience will also deliver a wide range of economic and social benefits beyond insurance. Yet on last count, 97 per cent of natural disaster funding was spent on recovery, leaving only 3 per cent for prevention and preparedness.⁷

Suncorp has led policy development on this front for a number of years, culminating in Protecting the North which has delivered a number of different benefits for Australians. It has made a real difference in affordability by introducing new and innovative products and having cyclone resilience at its heart. Our policy proposal is attached to this submission.

A LONG SERIES OF INQUIRIES

Government-commissioned and Parliament-initiated investigations have examined the issue of affordability, as well as insurance in northern Australia, at least 10 times in six years.

Suncorp is concerned that instead of acting on the growing body of evidence and addressing northern Australia's risk problem, the Federal Government continues to initiate new inquiries about the same issue. Summaries of key findings from these inquiries are set out below.

The cost of carrying out and complying with these inquiries is estimated to be several million dollars which could have been spent on protecting northern Australians through improved standards, stronger infrastructure and more resilient communities. Each inquiry may be conducted differently and lead to different insights and information used but the result is typically the same – northern Australia will continue to experience higher costs for home insurance if the region's resilience and preparation are not addressed.

3. Risk Frontiers (prepared for QLD Department of Community Safety, State-wide Natural Hazard Risk Assessment – Report 5: Projected cost of natural disasters to losses of annual residential property, March 2011. Available online at <http://www.disaster.qld.gov.au/Disaster-Resources/Documents/Report%205.pdf>.

4. Deloitte Access Economics (prepared for the Australian Business Roundtable for Disaster Resilience & Safer Communities), Building resilience to natural disasters in our states and territories (November 2017). Available online at <https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-economics-building-resilience-natural%20disasters-states-territories-161117.pdf>.

5. Risk Frontiers (Walker, G. R., Mason, M. S., Crompton, R. P., Musulin, R. T.), "Application of insurance modelling tools to climate change adaptation decision-making relating to the built environment", Structure and Infrastructure Engineering, 12:4 (2016), 450-462. Available online at <https://riskfrontiers.com/insights/publications/>.

6. Deloitte Access Economics (prepared for Vero Insurance), Four years on: Insurance and the Canterbury Earthquakes (February 2015). Available online at <https://www.vero.co.nz/documents/newsroom/deloitte-vero-four-years-on-insurance-canterbury-earthquakes-report-february-2015.pdf>.

7. Productivity Commission 2014, Natural Disaster Funding Arrangements, Inquiry report no. 74, Canberra (Volume 2), p300.

INTRODUCTION

NORTHERN AUSTRALIA INSURANCE PREMIUMS TASKFORCE – NOVEMBER 2015

- The Taskforce found that mitigation to reduce the risk of damage from cyclones was the *‘only way to reduce premiums on a sustainable basis’*.⁸ Given the Taskforce’s limited Terms of Reference, this was a significant finding.
- With regard to the two insurance options investigated – a mutual cyclone insurer and reinsurance pool – the Taskforce’s report detailed a number of limitations of both scenarios, particularly in terms of reductions of premiums possible and risks for the Government:
 - *“The mutual and reinsurance pool options generate a similar premium reduction and similar potential cost to Government over 10 years. If either option were to run along commercial lines, there would be no reduction in premiums.”*⁹
 - *“The larger the reductions to consumer cyclone premiums, the larger the likely cost to Government from taking on increased risk from cyclone damage.”*¹⁰
 - *“It is not possible for a commercially-run entity, either a cyclone mutual or reinsurance pool, which meets required capital standards, to lower premiums to consumers.”*¹¹
 - *“The cost [to Government] over 10 years could be nil or in excess of \$5 billion.”*¹²
- The Taskforce’s recommended way forward¹³ was made up of the following components:
 - Mitigation by way of household action is a sustainable way to reduce insurance premiums
 - Government funding to research low cost mitigation options and education
 - Insurers to develop pricing systems that develop greater recognition of mitigation action
 - Insurers to engage more effectively with property owners in northern Australia and
 - Governments to directly subsidise the cost of mitigation for low income households.
- On 18 December 2017, the Government provided its response, accepting the Taskforce’s central finding and ruling out market intervention. A greater commitment towards disaster mitigation is yet to be given.

GOVERNMENT RESPONSE TO SENATE STANDING COMMITTEE ON ENVIRONMENT AND COMMUNICATIONS INQUIRY ON RECENT TRENDS IN AND PREPAREDNESS FOR EXTREME WEATHER EVENTS (2013) – JULY 2015

- The Committee’s Report included additional recommendations made by the Australian Greens specifically around funding mitigation:
 - *“That the Commonwealth protect communities from extreme weather by increasing expenditure on pre-disaster resilience to around \$350 million a year”*¹⁴
 - *“A National Resilience Advisory Group should be established to ensure supported projects are appropriately prioritised and targeted.”*¹⁵
- These additional recommendations were ‘noted’ in the Government’s response.¹⁶
- The Government’s response also:
 - Recognised the significant impacts and costs of extreme weather events to homes, infrastructure, businesses, nature and human health
 - Acknowledged the Australian Government’s role in supporting states and territories with emergency management
 - Stated that a Productivity Commission inquiry into natural funding arrangements *“will inform future decisions of the Australian Government on disaster resilience building programs.”*¹⁷

8. Australian Government (the Treasury), Northern Australia Insurance Premiums Taskforce, Final Report (November 2015), p xiii.

9. Ibid, p x. 10. Ibid, p x. 11. Ibid, p83. 12. Ibid, p85. 13. Ibid, p89.

14. Senate Environment and Communications References Committee, Parliament of Australia, Recent trends in and preparedness for extreme weather events (August 2013), p171.

15. Ibid.

16. Australian Government, Response to the Senate Environment and Communications References Committee report: Recent trends in and preparedness for extreme weather events, July 2015, pp 15-16.

17. Ibid, p15.

INTRODUCTION

PRODUCTIVITY COMMISSION INQUIRY INTO NATURAL DISASTER FUNDING ARRANGEMENTS REPORT

– DECEMBER 2014

- *“Governments overinvest in post-disaster reconstruction and underinvest in mitigation that would limit the impact of natural disasters in the first place. As such, natural disaster costs have become a growing, unfunded liability for governments.”*¹⁸
- Identified natural hazard risk as key driver of insurance premiums.¹⁹
- Recommended a five-fold increase in annual mitigation funding, phasing out of stamp duty on insurance and improved land use planning laws in response.²⁰
- Recommended better data sharing between governments and organisations on natural hazard risk.
- Said “Groundhog day anecdotes abound” when referring to rebuilt assets sustaining repeat disaster impacts.²¹
- Identified insurance pools or Government subsidies to be “overwhelmingly ineffective.”²²
- *“Governments should not address affordability concerns by providing subsidies to high-risk households. Subsidies reduce the effectiveness of insurance in communicating and managing risk.”*²³

FINANCIAL SYSTEM INQUIRY ‘FINAL REPORT’ – NOVEMBER 2014

Significant observations relevant to the ACCC’s inquiry include:

- *“The Inquiry believes this issue [insurance affordability] should be primarily handled by risk mitigation efforts rather than direct government intervention, which risks distorting price signals.”*²⁴
- *“The costs of natural disaster insurance can be reduced through improved data, further mitigation efforts – such as building flood levies, and in the case of states and territories, by reducing the tax burden on insurance contracts.”*²⁵
- *“. . . the Inquiry considers the main role of government is to support the market in working as effectively as possible rather than subsidising prices.”*²⁶

THREE REVIEWS BY THE AUSTRALIAN GOVERNMENT ACTUARY

‘Report on Home and Contents Insurance Prices in North Queensland’²⁷, (released December 2014) Second Report on Investigation into Strata Title Insurance Price Rises in North Queensland²⁸, (released June 2014) First Report on Investigation into Strata Title Insurance Price Rises in North Queensland²⁹ (released October 2012)

- Insurers paid more than \$1.40 in claims for every \$1 of premium that they collected over eight years (from 2005-06).³⁰
- Even if the higher 2012-13 rates were applied throughout the whole eight-year reporting period, the industry would still be left with an unprofitable loss ratio.
- *“Cyclone risk can have a substantial regional impact on premiums.”*³¹
- *“In my view, the estimated cost of cyclone risk is likely to be the main reason why NQ premium rates are, on average, significantly higher than premium rates in most other parts of Australia.”*³²
- Strata insurance costs have been driven by *“historical under-pricing; the cost of reinsurance; and recent losses caused by natural disasters and the associated accumulation of risk in NQ.”*³³

18. Productivity Commission 2014, Natural Disaster Funding Arrangements, Inquiry report no. 74, Canberra, Volume 1 p2.

19. Ibid, Volume 1 p181 20. Ibid, Volume 1 p22. 21. Ibid, Volume 1 p 2. 22. Ibid, Volume 1 p222. 23. Ibid, Volume 2 p414.

24. The Australian Government (the Treasury), Financial System Inquiry – Final Report, Canberra, November 2014, p227.

25. Ibid, p231. 26. Ibid.

27. Australian Government (Australian Government Actuary), Report on Home and Contents Insurance Prices in North Queensland, Canberra (3 November 2014, released 5 December 2014).

28. Australian Government (Australian Government Actuary), Second Report on Strata Title Insurance Price Rises in North Queensland, Canberra (23 May 2014, released 6 June 2014).

29. Australian Government (Australian Government Actuary), Report on Investigation into Strata Title Insurance Price Rises in North Queensland, Canberra (3 October 2012, released 19 October 2012).

30. AGA, above n 24, p13. 31. Ibid, p5. 32. Ibid, p25. 33. AGA, above n 25, p3.

INTRODUCTION

PIVOT NORTH: INQUIRY INTO THE DEVELOPMENT OF NORTHERN AUSTRALIA: FINAL REPORT JOINT SELECT COMMITTEE ON NORTHERN AUSTRALIA – SEPTEMBER 2014

- Recommendation 8:
“That the impacts of the ongoing change in climate are included in all planning processes, and that the planning process includes the development of adaptation and mitigation policies and strategies for northern Australia.”³⁴

AUSTRALIA'S GENERAL INSURANCE INDUSTRY, SENATE ECONOMICS REFERENCES COMMITTEE – AUGUST 2017

The Committee's recommendations³⁵ included:

- Recommendation 1
“The committee recommends that the government release its response to the final report of the Northern Australia Insurance Premiums Taskforce.”
- Recommendation 14
“The committee recommends that the Australian Government reconsider its response to the Productivity Commission's inquiry on National Disaster Funding Arrangements.”
- Recommendation 15
“The committee recommends that, as a matter of urgency, the Australian Government work with states and territories through the Council of Australian Governments to reform national disaster funding arrangements.”

ADDRESSING THE HIGH COST OF HOME AND STRATA TITLE INSURANCE IN NORTH QUEENSLAND, TREASURY DISCUSSION PAPER – MAY 2014

- *“To some extent at least, the disproportionately higher increase in prices in North Queensland reflects the region's heightened vulnerability to risk. The key risk in the region is from cyclones, but flood risk is relevant in some parts of the region also.”³⁶*
- Despite stakeholders responding to Treasury's consultation, a report has never been released.

34. Joint Select Committee on Northern Australia, Parliament of Australia, PIVOT NORTH - Inquiry into the Development of Northern Australia: Final Report (September 2014), p172.

35. Senate Economics References Committee, Parliament of Australia, Australia's general insurance industry: sapping consumers of the will to compare (August 2017), pp ix-xi.

36. The Australian Government (the Treasury), Addressing the high cost of home and strata title insurance in North Queensland (discussion paper), Canberra (9 May 2014), p ix.

35. Senate Economics References Committee, Parliament of Australia, Australia's general insurance industry: sapping consumers of the will to compare (August 2017), pp ix-xi.

36. The Australian Government (the Treasury), Addressing the high cost of home and strata title insurance in North Queensland (discussion paper), Canberra (9 May 2014), p ix.

INTRODUCTION

MISGUIDED POLICY SOLUTIONS

Despite the growing chorus of credible bodies calling for disaster mitigation, band aid solutions abound.

In March 2015, the Federal Government established an insurance comparison website for North Queensland overseen by the Australian Securities and Investments Commission (ASIC). According to the Government's media release, the website was intended to "help consumers to compare home building and home contents insurance products. The site will enable consumers to compare the performance of insurers on price, product features and claims handling complaints."³⁷

There has been little evidence of the website being well utilised by consumers. Last year, the Senate Economics Committee called for a review into how the website has performed.³⁸

In 2015, there was also a commitment to clarify that "licensed brokers can sell policies from foreign insurers where they offer consumers a better price"³⁹ in an attempt to boost competition in North Queensland. Importantly, the latest Australian Prudential Regulation Authority (APRA) figures show there are no barriers with business being placed with foreign insurers. However, in the six months to 30 June 2017, of the 798 intermediaries that placed business directly with underwriters in the period, only 74 intermediaries (nine per cent) placed business with unauthorised foreign insurers (UFIs).

Further, of the \$9.4 billion in premium that intermediaries invoiced, just \$500 million or (five per cent) was placed with foreign insurers.⁴⁰ This indicates that most purchasers of insurance either cannot find more competitive premiums from foreign insurers or they prefer insurance offered by insurers under the protection of Australia's regulatory system. Suncorp supports greater competition, but continues to assert that UFI's should be governed under the same regulatory requirements as all Australian entities to provide the required protections and high standards to customers.

The Federal Government has also invested considerable time and resources investigating market intervention, examining the merits of a Government-supported reinsurance pool or a cyclone insurance mutual. After detailed analysis, the Northern Australia Insurance Premiums Taskforce subsequently took a dim view of both proposals (as above). All of the policy options ignore the heart of the problem. Reducing (and if possible, removing) the risk of catastrophic damage to homes and businesses in the region remains the only sustainable solution.

A CHANGING CLIMATE

Suncorp accepts the findings of the Intergovernmental Panel on Climate Change, that the Earth's mean surface temperature is increasing and that it is extremely likely that the dominant cause of the observed warming is the effect of human activity on the climate system.

Suncorp has an important role to play in helping our customers and communities prepare for, and recover from, extreme weather events which may increase in their severity. We will continue to advocate for, and invest in, strategies that promote natural disaster resilience just as we will continue to be a responsible provider of appropriately priced insurance products that factor in this climate risk.

Climate change is a global challenge which needs to be addressed by governments, businesses and individuals. If these risks are left unchecked, over the longer term we expect that climate change will increase the risk of losses from natural hazards, putting further upward pressure on premiums for home and property insurance, especially for customers in high risk areas.

Earlier this month, leading global reinsurer Munich Re's annual natural catastrophe review found 2017 was the worst year on record for insured losses around the world - US\$135 billion. It also found 2017 was the second worst year for overall losses - including uninsured losses - which totalled US\$330 billion.

Munich Re Board member Torsten Jeworrek said:

"For me, a key point is that some of the catastrophic events, such as the series of three extremely damaging hurricanes, or the very severe flooding in South Asia after extraordinarily heavy monsoon rains, are giving us a foretaste of what is to come. Because even though individual events cannot be directly traced to climate change, our experts expect such extreme weather to occur more often in future."⁴¹

MUNICH RE: 2017 NATURAL CATASTROPHE REVIEW



37. INITIATIVES TO HELP ADDRESS INSURANCE AFFORDABILITY FOR NORTH QUEENSLAND, media release, Senator Mathias Cormann, Minister for Finance, 23 October, 2014

38. The Senate Economic References Committee, Parliament of Australia, Australia's General Insurance Industry, August 2017, (p x)

39. INITIATIVES TO HELP ADDRESS INSURANCE AFFORDABILITY FOR NORTH QUEENSLAND, media release, Senator Mathias Cormann, Minister for Finance, 23 October, 2014

40. Statistics: Intermediated General Insurance Statistics, APRA, September 2017, page 5.

41. Natural catastrophe review: Series of hurricanes makes 2017 year of highest insured losses ever, Munich Re, Press Release: 4 January 2018, <https://www.munichre.com/en/media-relations/publications/press-releases/2018/2018-01-04-press-release/index.html>.



How Insurance Premiums Are Priced

CAPITAL REQUIREMENTS

Suncorp works very hard to remain competitive while meeting increased prudential and capital obligations as a licensed insurer in Australia. We must be a responsible provider of insurance services.

APRA's regulation of the financial system demands insurers hold very strong capital positions, are well governed and prudently managed over the long term. Like all other APRA-regulated insurers, Suncorp is increasingly expected to carry out and demonstrate unquestionable financial resilience in the risks it faces and manages.

A speech in February last year by APRA Board member Geoff Summerhayes to Insurance Council of Australia members warned climate risks are distinctly financial in nature and that insurers must take account of these into the future. Mr Summerhayes said: "... *climate risks will become an important and explicit part of our thinking . . . we make no apologies for expecting regulated entities to rise to this challenge with us.*"⁴²

Mr Summerhayes then followed through on this warning with another landmark speech to the industry in November 2017. Mr Summerhayes stated:

"APRA supervisors have begun to ask questions of regulated entities. Initially, these have related primarily to awareness: is the entity aware of APRA's comments about climate related risks? Has it investigated or planned to investigate the issues raised? And if it has investigated them, is action required?"

*Increasingly, APRA will expect more sophisticated answers, especially from well-resourced and complex entities. As APRA identifies entities with better practices, we will further engage those institutions to gain a deeper understanding of how they approach, measure and manage these risks, and share this as industry guidance."*⁴³

Furthermore, APRA is increasingly putting a spotlight on the insurance industry through various exercises including the introduction of system-wide stress testing on organisational and capital resilience of entities. Suncorp can expect to undergo more stress tests of severe but plausible scenarios into the future which may involve major climate-related events.

The devastating results of holding less than adequate capital were realised in New Zealand after the Christchurch earthquake in 2011. Some insurers collapsed due to being over-exposed to the Christchurch regional market with arguably under-priced and under-reinsured insurance. The bail-out of insurer AMI greatly impacted taxpayers and another insurer, Western Pacific, had many unpaid claims which impacted its policyholders.

Therefore, it is absolutely paramount for Suncorp to maintain a strong focus on responsible capital holdings and retain enough reinsurance and natural hazard allowances to embed this resilience in our risk management. The costs involved to maintain a clean bill of health must be reflected in the premiums we charge.

PREMIUMS IN NORTHERN AUSTRALIA

Pricing analysis undertaken by Suncorp and the ICA for previous inquiries have not indicated widespread affordability problems in northern Australia. As part of the Northern Australia Insurance Premiums Taskforce inquiry, the ICA previously reported 97 per cent of cyclone exposed home insurance

42. AUSTRALIA'S NEW HORIZON: CLIMATE CHANGE CHALLENGES AND PRUDENTIAL RISK, Geoff Summerhayes, APRA, 17 February 2017.

43. THE WEIGHT OF MONEY: A BUSINESS CASE FOR CLIMATE RISK RESILIENCE, Geoff Summerhayes, APRA, 29 November, 2017.

44. Insurance Council of Australia, submission to Northern Australia Insurance Premiums Taskforce (18 September 2005), p2. Available online at https://static.treasury.gov.au/uploads/sites/1/2017/06/R2015-002_ICA.pdf.

HOW INSURANCE PREMIUMS ARE PRICED

policyholders were paying \$3,000 or less for home building insurance.⁴⁴ High premiums that characterise much of the media reporting of the issue are typically outliers that reveal high risk properties, either in their age of construction, their risky location, or both.

Similarly, we occasionally read or hear stories of very high strata-titled premiums in the north. But upon closer examination, those premiums invariably relate to large buildings that would (or should) spread the premium across a number of units. For instance, an \$80,000 building insurance premium at first glance can raise concerns but when applied across a 40-unit complex, with its own risks and common facilities, such as pool, elevators and car parks, the amount each unit-holder pays comes to \$2,000 on average per unit. Indeed, previous analysis has shown strata insurance is cheaper than home insurance on a 'per unit' basis.

Furthermore, there is significantly more variation between different strata developments than between different free-standing homes. For example, it is difficult to compare the risk faced by a duplex to that of a large apartment complex with features such as basement car parking, pools and elevators.

Other indicators relevant to the affordability debate include:

- No trend in North Queensland towards a lowering of overall sum insured to lower premiums⁴⁵
- No trend toward high excesses in high risk locations. In fact, on previous analysis, 92.5 per cent of policyholders chose an excess of \$1,000 or less.⁴⁶ High excess should be seen as a key measure of affordability stress as this is always discussed as an option between insurer and policyholder when high premiums are raised as an issue

- Suncorp's renewal rate in North Queensland is consistently more than 90 per cent and has been higher than in NSW,⁴⁷ showing there is little evidence of customers dropping out of the market
- Previous ICA polling found 95 per cent of homeowners in North Queensland have building insurance, consistent with national figures.⁴⁸

HOW WE PRICE

Our pricing approach is the same across Australia. The premium we charge is the addition of our expected claims cost, our expected claims handling costs, our expected expenses (both fixed and variable such as inflation), our reinsurance costs and, finally our profit. Expected claims cover more than natural hazards and include 'working' or non-weather event incidents such as theft and accidents.

Suncorp regularly reviews our expected future claims and may adjust premiums to ensure we continue to operate in a viable way.

Strong balance sheets, diversified risks and comprehensive reinsurance arrangements are critical elements that only large national insurers can bring to the northern Australia market. They allow insurers to confidently invest and do business in riskier regions. In addition, as a leading insurer, Suncorp has always retained a specific focus on controllable cost reduction, whether it be more efficient administrative processes, better claims handling systems or other facets of our business. This puts downward pressure on premiums.

Furthermore, major disasters in the north demonstrate that we can bring our scale to bear to accelerate post-disaster recovery.

After we set a price for each main component covered by the policy we

combine these figures into a 'technical premium'. This figure represents our estimate of future claims costs for that policy, reinsurance costs and other general business costs. Like other businesses, we then apply percentage-based discounts and loadings to attract customers, remain competitive, and grow and protect our business. This new amount is a 'base premium' which represents what we intend to sell the policy for.

The final stage in setting a price is to apply relevant taxes, levies and duties. Government taxes, the GST (10 per cent) and stamp duty (nine per cent), significantly increase the cost of insurance and result in a final 'total premium', which is the amount we ask customers to pay. Suncorp often has a number of brands operating in different markets. The premiums each brand may quote and charge to customers can vary depending on different product offerings and features, as well as specific underwriting approaches.

Natural hazard allowance – Built into the charge for perils within a premium is a 'natural hazard allowance'. This is an amount set aside to pay for large events.

Having an appropriate natural hazard allowance is needed for the insurer to have adequate funds in reserve to pay claims from natural disasters.

Allowances are based on the long-term average cost of disasters and they have increased for Australian insurers. These increases have contributed to higher insurance premiums.

This allowance has proven to be very difficult to calculate, demonstrated by Suncorp underestimating the allowance during the past 10 years. But it is evidence that natural disaster costs are increasingly getting higher, putting further pressure on premiums.

Reinsurance – Reinsurance costs in northern Australia have been approximately two to three times higher than the cost in other regions of Australia in the past 10 years.

45. Based on ICA analysis of member policy data

46. Based on ICA analysis of member policy data

47. Suncorp policy data

48. Based on ICA polling data

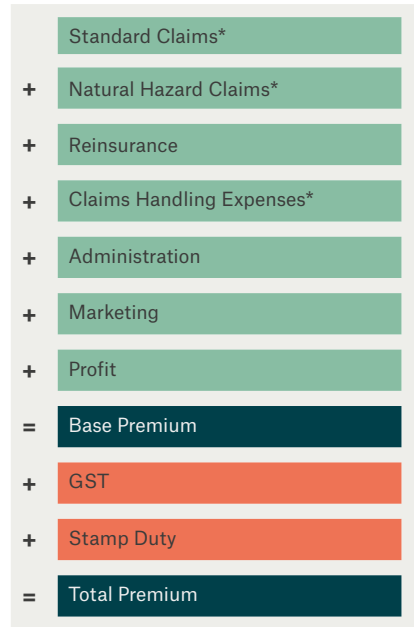
HOW INSURANCE PREMIUMS ARE PRICED

Our current reinsurance arrangements are provided to APRA and summarised in our annual and half-yearly financial reports. Reinsurance also helps ensure we are always able to pay claims when needed.

This is particularly important in relation to large commercial risks, large events, or an accumulation of events, such as in 2011 when Suncorp experienced floods, cyclones, fires and the New Zealand earthquakes within six weeks.

Reinsurance also helps us meet our regulatory obligations. APRA requires insurers to buy a minimum amount of catastrophe reinsurance as specified in their prudential standards. Without reinsurance, a much larger capital base would be required to meet claims – and this would be reflected in higher premiums than current levels.

COMPONENTS OF A BUILDING INSURANCE PREMIUM



* Estimates










MANY FACTORS USED IN PRICING

We publish Premiums, Excesses and Discount (PED) Guides for each of our insurance products that sets out the factors we use to price premiums.

A number of factors have driven premium increases in northern Australia over the past 10 years, including:

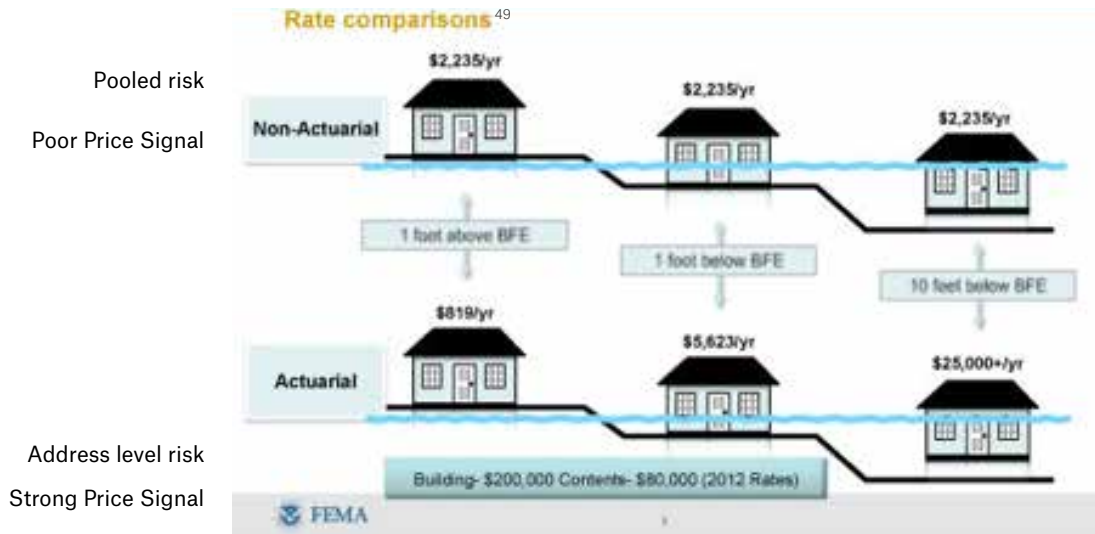
- An increase in the size of expected claims due to natural hazards, and working claims which pertain to theft and accidental damage etc.
- An increase in sum insured levels (approximately six per cent per annum)
- An increase in general inflation such as wages
- An increase in reinsurance premiums.

FACTORS WE USE TO SET INDIVIDUAL PREMIUMS

 The address of the insured home or unit	 Sum insured	 The type of insurance you have chosen (home, contents or both)
 The level of cover you have chosen	 Any optional covers you have chosen	 Construction material and other characteristics such as age of building
 Age of the oldest named insured	 How the home or unit is occupied	 The standard excess you choose

HOW INSURANCE PREMIUMS ARE PRICED

POOLED VS ADDRESS - LEVEL PRICING APPROACH



RISK-BASED PRICING

Insurance pricing has evolved considerably over the past 15 years. Suncorp often hears community misconceptions that the industry still prices homes by postcode. Suncorp will always look at the full street address rather than just the postcode.

New technology and data in our pricing engine means we can now estimate risk at an individual level with greater accuracy and begin to 'de-average' premiums. Rather than customers cross-subsiding each other substantially and paying "an average" price, a risk-based approach prices various segments higher than the average (as higher risk) and others lower (as lower risk).

It is important to apply different prices for different risks to ensure we offer accurate prices and collect enough premiums to pay future claims. We are increasingly including extra information, such as distance between the home and the hazard – for example bushland measured by satellite imagery – to improve the accuracy of our risk estimate.

The above basic flood risk example illustrates that where risks in the past would be pooled at postcode level, insurers now price at a much more granular level, down to the

specific property. This has the effect of removing cross-subsidies so that the house on top of the hill is not subsidising the home next to the river. Similarly, it ensures the old house in harm's way on the coastline is receiving a higher premium than a newer, stronger house situated inland with less cyclone risk.

The removal of the cross subsidy provides a strong price signal of the inherent risk of an individual property. Unfortunately, this evolution in pricing can lead to large increases in the level of insurance premiums for higher risk homes.

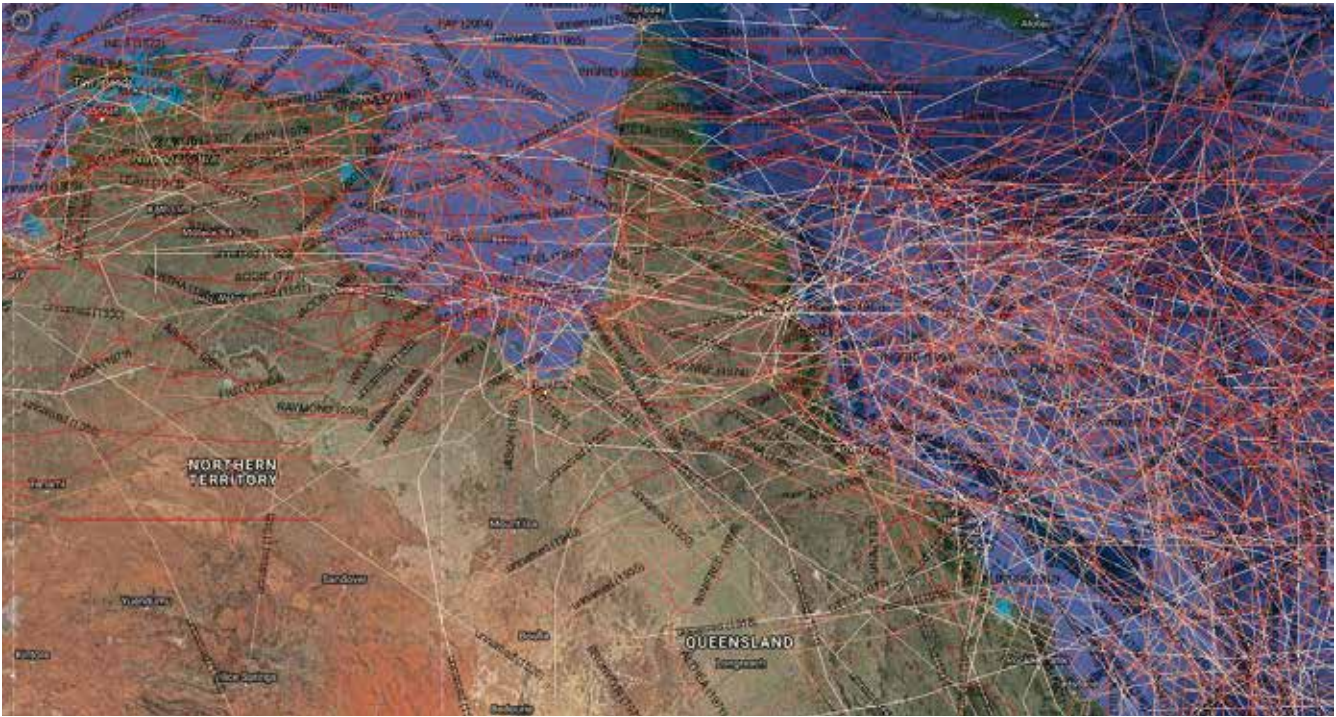
This is why we are working hard to understand cyclone risk better so that we can assist homeowners reduce their underlying risk and hence their premiums. We understand the community, insurers and government all have a shared interest in reducing insurance premiums and increasing insurance uptake.

Suncorp wants to raise awareness of the relationship between claims risk and premiums. This comes back to the need to invest in disaster mitigation and better risk management.

Preventing natural hazards from becoming natural disasters will mean insurers pay out fewer claims which would allow us to offer lower, and more affordable, insurance premiums.

49. <http://www.davemooreinsurance.com/news-and-resources/nfip-vs-private-flood-insurance/>

HOW INSURANCE PREMIUMS ARE PRICED



[A pictorial history of cyclones and their paths across North Queensland and the Northern Territory]. Source: ICA

CYCLONE RISK

The grim reality that insurers must face when pricing for northern Australia is the significant risk of cyclones destroying homes, businesses and people's possessions. They can inflict a multitude of destructive forces, including severe winds, water entry, flooding and storm surge. Five of the costliest cyclones in Australia's history have occurred in the last decade, dating back to Cyclone Larry in 2006, and all of them occurred in North Queensland, as the table on the next page shows.

The most recent, Tropical Cyclone Debbie, made landfall in the Whitsunday region in North Queensland on 29 March, 2017 and is now Queensland's costliest cyclone, surpassing \$1.5 billion. Significantly, Debbie is the costliest cyclone Australia has experienced since current cyclone resilience standards were introduced into the National Construction Code.

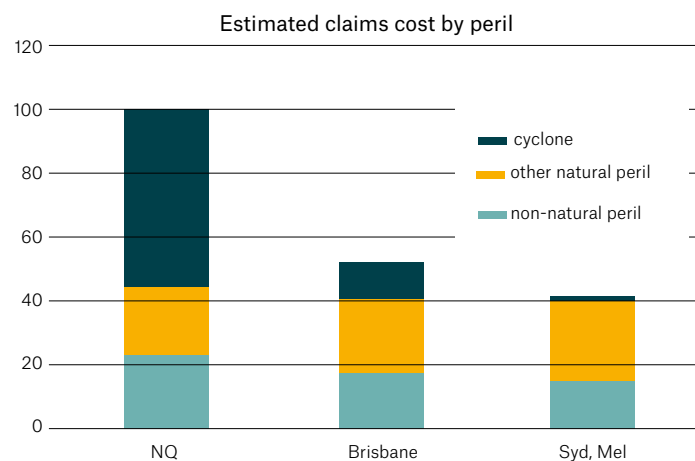
One model Suncorp uses averages insurance losses from cyclones at \$632 million per year going forward. The same model indicates that in any given year there is a 1 in 10 risk that cyclones

could cost \$1.4 billion, a 1 in 100 risk they could cost as much as \$7 billion and a 1 in 250 risk of \$12 billion.⁵⁰ Cyclones also cause significant social and economic losses beyond the insurance market. This includes the loss or damage of individuals' most treasured and irreplaceable possessions (see graph next page).

The Australian Government Actuary investigated insurance premiums in North Queensland three times in two years and found that insurers of home policies were paying \$1.40 in claims for every \$1 they received in premiums over a recent eight-year period (from 2005 - 2006).⁵¹ The Actuary found

that the cyclone peril was the primary difference between premiums charged in North Queensland and premiums charged in capital cities.⁵²

The below chart from the Actuary shows the relative premium breakdown for North Queensland customers compared with other major centres. Home insurance claims costs were split between cyclone, other natural peril and non-natural peril causes for each of North Queensland, Brisbane and Sydney/Melbourne. It is clear that if it was not for the cyclone peril, insurance premiums in North Queensland would be closer to pricing parity with the capital cities.



50. Risk Frontiers (prepared for Queensland Department of Community Safety) Report 5: Projected cost of natural disasters to losses of annual residential property, Brisbane, March 2011.

51. Australian Government Actuary, n 27 above, p13.

52. Australian Government Actuary, n 29 above, p25.

HOW INSURANCE PREMIUMS ARE PRICED

Suncorp sometimes hears arguments in the community disputing this level of risk in North Queensland. Calls for greater parity are made with assertions that southern parts of Australia experience equally damaging weather events. Cyclones behave differently to floods, bushfires and storms, causing widespread damage affecting a much larger proportion of homes. One in four (26 per cent) of Suncorp policyholders

in impacted areas made a home building claim in relation to Cyclone Yasi, with claims lodged from Bowen to Port Douglas, a distance of over 600 kilometres.

Analysis shows that there would have been significantly more damage if the most severe winds had hit a more densely populated area such as Townsville. These figures highlight

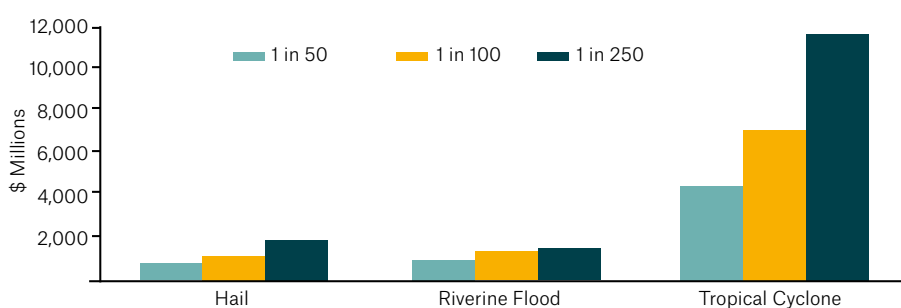
the unique and widespread nature of cyclone risk. In comparison, the Brisbane and Ipswich floods in 2011 resulted in only one in 50 (two per cent) of policyholders lodging a claim. Flooding is highly localised, resulting in large premiums for a smaller number of policyholders. Cyclone damage is widespread resulting in comparatively smaller premium increases for a much larger number of policyholders.

AUSTRALIA'S WORST CYCLONES ⁵³

Rank	Name	State	Year	Losses*
1	Cyclone Tracy	NT	1974	\$4.1b
2	Cyclone Debbie	QLD	2017	\$1.565b
3	Cyclone Yasi	QLD	2011	\$1.532b
4	Cyclone Madge	WA/NT/Qld	1973	\$1.492b
5	Ex-TC Oswald	Qld/NSW	2014	\$1.13b
6	Cyclone Ada	Qld	1970	\$1.01b
7	Cyclone Dinah	Qld	1967	\$878m
8	Cyclone Larry	Qld	2006	\$799m
9	Cyclone Justin	Qld	1997	\$650m
10	Cyclone Althea	Qld	1971	\$648m
11	Cyclone Marcia	Qld	2015	\$544m
12	Cyclone Joan	WA	1975	\$398m
13	Cyclone Tasha	Qld	2010	\$393m
14	Cyclone Elaine	Qld	1967	\$390m
15	Cyclone Hazel	WA	1979	\$287m
16	Cyclone Alby	WA	1978	\$265m
17	Cyclone Sid	Qld	1998	\$245m
18	Cyclone Winifred	Qld	1986	\$205m
19	Cyclone Cliff	Qld	1981	\$205m
20	Cyclone Nancy	Qld/NSW	1990	\$197m
21	Cyclone Zoe	Qld/NSW	1974	\$171m
22	Cyclone Aivu	Qld	1989	\$138m
23	Cyclone Joy	Qld	1990	\$121m
24	Cyclone Herbie	WA	1988	\$117m
25	Cyclone Daisy	Qld	1972	\$116m
26	Cyclone Vance	NT	1999	\$108m

*insurance losses, estimated loss value in 2015 dollars (apart from Cyclone Debbie, actual losses)
Source: www.disasters.org.au

ESTIMATED LOSSES FOR INSURED RESIDENTIAL PROPERTIES FROM NATURAL HAZARDS, QUEENSLAND ⁵⁴



53. ICA www.disasters.org.au

54. Risk Frontiers (prepared for Queensland Department of Community Safety) Report 5: Projected cost of natural disasters to losses of annual residential property, Brisbane, March 2011.



Why Northern Australia Is Different

OLDER HOMES ARE PARTICULARLY VULNERABLE TO CYCLONE DAMAGE

Suncorp estimates that up to 100,000 homes in North Queensland may be at risk of catastrophic cyclone damage because they were built before the current National Construction Code was introduced, requiring higher cyclone building standards.

In 2006, Cyclone Larry damaged a number of homes in Innisfail, which were repaired or rebuilt in accordance with the tougher standards. In 2011, when Cyclone Yasi again impacted Innisfail the rebuilt areas saw average repair costs of \$56,000. This was almost half of the \$110,000 average repair costs in nearby Tully and Cardwell that were largely built prior to the commencement of the newer standards. Suncorp's own claims experience is supported by ground breaking Protecting the North research undertaken in recent years with the Cyclone Testing Station (CTS) at James Cook University. This research, derived mostly from Cyclone Larry and Cyclone Yasi claims data, found homes built before the standards were more vulnerable to structural failure than new homes.⁵⁵

BUILDING CODES COULD FURTHER PROTECT BUILDINGS AND REDUCE DAMAGE

Australia made significant advances in the 1980's protecting homes and homeowners against cyclone when the new National Construction Code was introduced. The Code we have now in northern Australia was primarily driven by Cyclone Tracy which devastated Darwin in 1974, killing 65 people. More than 70 per cent of Darwin's houses suffered severe damage. In some areas, 90 per cent of houses were destroyed.

The Code has since undergone many tests in North Queensland – Larry, Yasi, Oswald, Marcia, and more recently Debbie. It has proven to be one of the greatest forms of disaster mitigation Australia has introduced. Modern homes generally fare better than older homes as they are less likely to sustain significant structural damage. This results in fewer severe or large insurance claims which is a testament to the Code.

However, Suncorp is concerned about a common misconception in North Queensland that a home is 'cyclone proof' if it was built in compliance with the Code. Building codes are only a minimum standard, and are designed

primarily to protect lives and ensure structural integrity. Homes that meet this standard can still suffer significant damage, leaving a lot of room for improving resilience and reducing the risk of loss.

The requirements of the Code are focused on keeping the underlying structural system intact – it is not intended to protect possessions and so is not strong in keeping water out of the house. This is an important distinction because even compliance with the Code does not ensure that a house is going to be cyclone proof or avoid severe damage during a major weather event. For example, newer buildings are prone to damage from wind and water ingress through openings.

If not properly protected, these openings become the weakest points in the building. Once an opening is breached wind and water can enter the home, causing damage to interiors and contents and driving up claims costs. This shortcoming of the Code has been validated a number of times in the aftermath of several of Australia's worst cyclones, most recently after Cyclone Debbie. CTS inspected the damage of many buildings in the Whitsunday area. The CTS reported:

55. James Cook University (Cyclone Testing Station) prepared for Suncorp, Build To Last, Brisbane 2015.

WHY NORTHERN AUSTRALIA IS DIFFERENT

“CTS teams assessed the causes of damage to buildings from wind, wind-driven rainwater and storm surge. Inadequate tie-down details between battens and rafters or trusses, and between the roof structure and walls caused many of the structural failures in buildings constructed before the 1980s. Tie-down connections between roof structure and walls that had been inappropriately detailed also failed on some recently constructed buildings. Connections between verandah beams and posts on some buildings with larger verandahs also failed.

This study confirmed the findings of previous damage investigations concerning the vulnerability of: windows with inadequate fixings, window and door furniture; poorly fixed flashings, gutters and soffit linings; large access doors that had not been strengthened so that they complied with AS/NZS4505; lightweight sheds; and fences.

Many occupants of newer buildings reported significant damage from wind-driven rain entering through windows and doors or under flashings

even though there was no structural damage to the building. Many people reported that they mopped up water in front of windward wall windows during periods of maximum winds, which exposed them to risk of injury.”⁵⁶

Similar issues have been observed in northern Western Australia, where the Code mandates construction to withstand higher wind speeds than Queensland and the Northern Territory, most recently after Cyclone Olwyn in March 2015.



EXPOSURE TO FLOOD RISK

Many areas in northern Australia are not just cyclone prone, but they are also exposed to varying levels of flood risk. The below map shows different parts of North Queensland’s coastline overlaid with Probable Maximum

Flood (PMF) level. Insurers must also factor this significant peril into premiums charged to customers.

For example, Mackay faces high risk perils of flood and cyclone. Its most recent major flood occurred in February 2008 when twice the city’s monthly

average rainfall fell in just six hours. This did not coincide with a cyclone. A wave of runoff caused significant flood impacts, particularly to the low-lying areas of Glenella and North Mackay.

Flooding was worse where residences were located near a recent



Cairns Flood extent



Rockhampton Flood extent



Mackay Flood extent



Townsville Flood extent

56. Cyclone Testing Station, James Cook University, Tropical Cyclone Debbie: Damage to buildings in the Whitsunday Region, Townsville, (p 3).

WHY NORTHERN AUSTRALIA IS DIFFERENT

development that had been built on former wetland areas. More than \$400 million in insurance claims resulted from the flood damage across home, contents, business and motor. Suncorp alone paid out \$140 million (2008 AUD) in home and motor claims.

The cost could have been a lot more given a number of insurers did not cover flood or only covered flash flood at the time.

Similarly, Rockhampton experiences moderate to major floods at regular intervals with the Fitzroy River located very close to hundreds of homes and businesses. This has prompted the local council to lead a major flood levee project for the town.

North Queensland faces significant planning legacy issues in this regard and caution should be exercised during future planning and development decisions at a local and State

Government level to prevent more homes and businesses unnecessarily paying for high flood risk.

The expansion of flood cover in home insurance policies after 2011 to make it clear that policies also covered riverine flooding has caused a step change in premiums for approximately 20 per cent of policyholders in northern Australia.



[Mackay during the February 2008 floods] Source: Mackay Daily Mercury



[Mackay during the February 2008 floods] Source: ABC news

WHY NORTHERN AUSTRALIA IS DIFFERENT

HIGHER BUILDING COSTS

Materials and trade costs in northern Australia are significantly higher than in southern Australia due to higher building standards, narrower supply and associated input costs such as fuel and power.

Insurance premiums take into account the costs of rebuilding and repair work and where these activities are more expensive for the insurer to undertake, the premiums charged will reflect those costs. We estimate they can be up to 40 per cent higher than in locations throughout the southern states, meaning a \$700,000 home in Melbourne could cost up to \$980,000 in the north.

An ongoing commitment to use local trades and suppliers in the aftermath of disasters as well as cost pressures related to post-event demands on resources are perhaps best handled by large, diversified national insurers with strong balance sheets and capital reserves.

THE EFFECT OF TAX ON PREMIUMS

All Queenslanders are paying a double tax on home insurance. As stated earlier, insurers calculate a base premium before applying the relevant Government charges to arrive at a final premium. The two taxes widen the gap between insurance premiums in northern Australia and southern Australian. This tax regime creates a tax multiplication

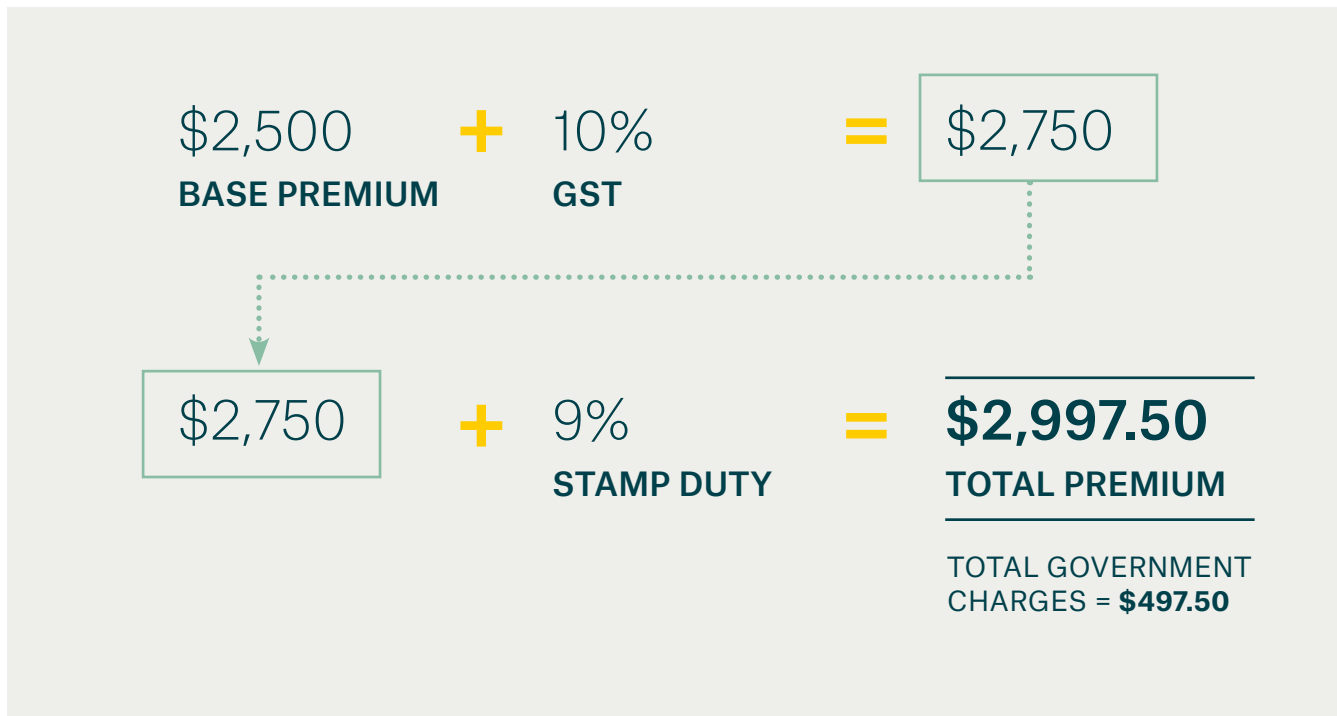
effect on premium changes where, as insurers adjust risk based pricing, any change in premium increase will be much higher due to the taxes.

In the case of Queensland, the Commonwealth Government's 10 per cent GST is added before the State Government's 9 per cent stamp duty. The stamp duty is effectively charged on 110 per cent of the base premium.

A \$2,500 home insurance technical premium becomes a \$2,997.50 premium once these charges are applied.

As detailed in Suncorp's Protecting the North Policy Proposal, both levels of Government can address insurance affordability by acting on these two significant taxes on premiums.

TAX IMPACT ON A \$2,500 PREMIUM





A Competitive Industry

Suncorp offers a range of different products across different brands covering home and strata insurance throughout northern Australia.

We have been doing business in North Queensland for more than 100 years and remain committed to serving these communities and being there for the moments that matter. None of Suncorp's brands have exited the North Queensland market over the past 10 years.

Suncorp uses one standard risk model for all brands and hence the price of a Suncorp insurance policy will be highly correlated to other Suncorp brands such as AAMI and Apia. Each brand offers different features resulting in different prices being offered. Additionally, different cost bases (marketing, distribution models) ensure the final customer prices will vary. This contributes to the level of competition in specified markets.

AREA	HOME	DIRECT STRATA	BROKER STRATA
North Queensland - general (including the coastline up to 500m)	Suncorp, AAMI, Apia, Shannons, Vero, Resilium, Vero Corporate Partners	Suncorp, AAMI	Resilium, Longitude (underwritten by Vero)
Offshore Islands - QLD	Some Islands (postcodes) are acceptable with an excess and some are not accepted.	Some Islands (postcodes) are acceptable with an excess and some are not accepted.	Some Islands (postcodes) are acceptable with an excess and some are not accepted.
NT - general	Suncorp, AAMI, Apia, Shannons, GIO, Vero, Resilium, Vero Corporate Partners	Suncorp, AAMI, GIO	Resilium, Longitude (underwritten by Vero)
WA - general	Suncorp, AAMI, Apia, Shannons, GIO, Vero, Resilium, Vero Corporate Partners	Suncorp, AAMI, GIO	Resilium, Longitude (underwritten by Vero)

A COMPETITIVE INDUSTRY

The Australian insurance market is highly competitive and high customer turnover has been a regular feature of the sector for many years. APRA reports that at the end of June 2017, there were 104 APRA-authorized insurers in Australia.⁵⁷

Numerous government reviews over several years have found that competition in the sector is strong and pricing is appropriate to risk. The Financial Systems Inquiry (FSI) confirmed that the general insurance sector is not only competitive, but stable and well-managed. The FSI found that significant reforms had already taken place in the insurance market following the demise of HIH Insurance in 2001, and there was no compelling case for further reform.⁵⁸

Suncorp faces competition in northern Australia and has not observed any signs of market failure. Right now, there are 10 insurance brands offering home insurance in Cairns with a market share of more than one per cent compared to 13 in Sydney as can be shown in Roy Morgan statistics (September 2017) on the right.⁵⁹

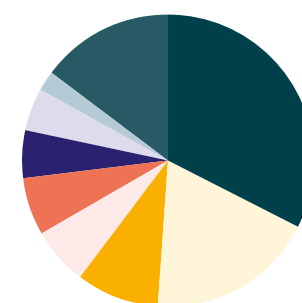
This level of competition in the north has seen average premiums for home and contents in North Queensland remain relatively stable over the past couple of years. Recent research by the ICA indicates that almost 70 per cent of customers compared policies between brands at renewal time.⁶⁰ Suncorp believes that the levels of shopping around and switching insurers show a healthy and competitive market.

Similarly, a building insurance comparison of Cairns (postcode 4870) with a sum insured of \$550,000 and an excess of \$500 was undertaken using ASIC's own North Queensland insurance comparison website. It revealed quotes from 11 insurance brands ranging from \$1,815 to \$3,005. (see next page)

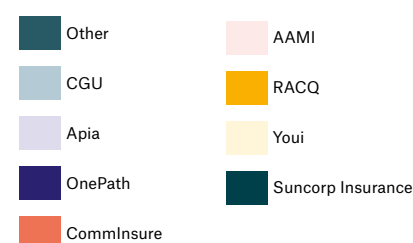
Cairns	Market Share
Suncorp Insurance	32.6
Youi	18.6
RACQ	9.3
AAMI	6.4
Comminsure	6.4
One Path	5.2
Apia	4.7
CGU	2.3
Other	14.5

List of companies grouped into other

Allianz	1.7
NRMA	1.2
Westpac	0.6



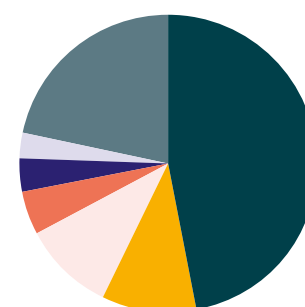
Cairns (Home)



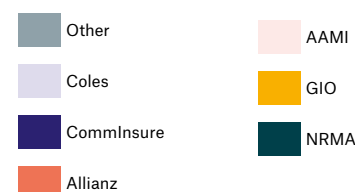
Sydney - Central	Market Share
NRMA	47.2
GIO	10.1
AAMI	10.0
Alianz	4.8
Comminsure	3.5
Coles	3.0
Other	21.4

List of companies grouped into other

Youi	2.8
QBE	2.5
Budget Direct	2.0
Apia	1.7
OnePath	1.7
Westpac	1.3
CGU	1.2
Suncorp Insurance	0.5
Shannons	0.5
Real Insurance	0.3



Sydney - Central (Home)



57. APRA, 2016/17 Annual Report, Sydney, November 2017 (p 28)

58. Australian Government (the Treasury), n 21, p36.

59. Cairns vs Sydney market share - Roy Morgan, September 2017,

60. ICA Consumer Research on General Insurance Product Disclosures - Research findings report, Sydney, February 2017, (p 109)

A COMPETITIVE INDUSTRY

INSURANCE COMPARISON WEBSITE

- **Your comparison result is based on the following:** Sum insured (\$550,000), property type (detached house), construction year (between 1980 and 2009 inclusive), roof type (iron), wall type (brick veneer).
- CAIRNS, 4870 is assessed as having a relatively **high risk of flood** and **high risk of cyclones** (based on Finity Consulting's natural peril assessment).
- There is a **high variation** in the risk of **flood** and/or **cyclones** within this location (based on Finity Consulting's natural peril assessment). As a result, premium quotes for properties in this location could vary widely.
- Intermediate includes basic cover and fusion cover, but not accidental damage cover. Additional features may also be available. Contact the relevant insurer(s) for more information.

	AAMI	Allianz	ANZ	Apia	Comminsure	NRMA	QBE	RACQ	Suncorp	Westpac	Youi
Key Features ?											
Cyclone	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Storm	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Flood	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Storm Surge	✓	✗	✓	✓	✗	✓	✗	✓	✓	✓	✗
Other Actions of the Sea	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Safety net	✗	✗	✗	✗	✓	✗	✓	✓	○	✓	✗
Total replacement cover	○	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗
Other features (Click to expand)											
Excess											
Selected excess	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500
Excess options available	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Annual Premium ?											
Lower premium ?	\$2,938	U	\$2,684	\$2,199	\$1,815	\$2,372	\$2,253	\$3,644	\$2,816	\$3,005	\$2,685
Medium premium ?	\$5,237	U	\$3,614	\$3,081	\$2,558	\$3,285	\$3,765	\$4,623	\$3,893	\$3,422	U
Higher premium ?	\$9,014	U	\$4,649	\$5,902	\$4,004	\$4,548	\$5,503	U	\$5,885	\$4,742	U

Key: ✓ Feature included

— Tap/hover for more information



Source: Sydney Morning Herald, 6 June 2016

Customer Outcomes

Suncorp invests significant time and resources into understanding trends in consumer behaviour and transforming our business to create better value for our customers. Our focus is on customer service and we are always working to evolve and develop new ways of deepening our relationship with our customers.

Suncorp is reshaping the way we deliver products and improving the way we manage customer claims. Our goal is to make it easier, faster and simpler for customers to purchase and claim on their insurance products.

We know insurance is not always easy to purchase, and we know that customers just want a product they can understand and will protect them when things go wrong. To that end, the Premiums, Excesses, Discounts & Claims Payments (PED) guide on our brand websites is designed to provide our customers with additional information about how we calculate premiums, determine excesses and discounts, and pay claims under the policy.

We conduct major pieces of research and participate in industry projects to try to get this part of customer experience right. We are constantly looking at ways to innovate so that insurance is simpler, less stressful and better focused on our customers' needs.

AGGREGATORS - BAD OUTCOMES FOR EVERYONE

Improving the customer experience of purchasing insurance is an area of key focus for the industry. However, Suncorp strongly believes that a regulated insurance aggregator for northern Australia, as has been suggested at times, would have a negative impact on consumers.

Aggregator models have been linked to declining customer outcomes, as experienced in the UK insurance market. They provide a skewed view of the important features in a policy and present insurance products as undifferentiated commodities. This makes price the key determining feature for customers.

However, value is about more than just price. It reflects a balance of product features and services, which varies by market.

Furthermore, this type of intervention is likely to have a negative impact on the industry by stifling the development of innovative product features and business models. The Financial System Inquiry (FSI), ASIC and APRA have all supported these views in the past.

Implementation of a price-driven aggregator model will increase the likelihood that customers are underinsured or lack important types of coverage – particularly those at high risk of being impacted by natural disasters. Customers who shop purely on price, however, may not be covered when they need it most. For example, a super storm caused king tides to lash the NSW Coast in June 2016, leaving a number of homes, particularly on Collaroy Beach destroyed with parts of the building washed up on the beach (as shown in the picture above).

Some policyholders subsequently realised their policies, while possibly cheaper, did not insure them against any acts of the sea.

CUSTOMER OUTCOMES

TRANSPARENCY & DISCLOSURE

While Suncorp endeavours to provide all necessary information to help customers understand their products, many tend to read all available information only when they wish to make a claim. It is possible that the volume of material posted and emailed to customers is so overwhelming that customers do not feel compelled to read it.

In recent years, the ICA has led an industry project to improve disclosure outcomes and address long standing concerns about the lack of an informed choice among consumers when purchasing general insurance. The ICA report, **Too Long; Didn't Read** highlighted the importance of listening to consumers and better meeting their needs to break through the barrier of information overload.⁶¹

This led to industry-first research to better understand consumer behaviours and ensure future changes actually have a positive impact. With this research, insurers are committed to shift from "tick a box" compliance disclosure toward transparent disclosure designed and tested to support consumer decisions.

Too often legal requirements have driven documents that fall short of what customers really need. Suncorp aims to be innovative in giving customers everything they need to understand their purchase and make an informed decision. Suncorp is a major contributor to these industry reforms and has already found some better ways to communicate with our customers and explain our products.

Our award-winning product Essentials by AAI has an animated video designed with customers that supports the Product Disclosure Statement and

we have invested in an automatic sum-insured calculator to help tackle underinsurance. There is plenty of work still to be done, and we look forward to driving a more flexible and innovative approach. However regulatory change would significantly improve the industry's ability to improve in this area, namely the limited ability to send PDS's electronically and to provide more targeted, personal advice that delivers greater customer understanding.

EXCESS AND POLICY COVERAGE

The amount of excess payable in the event of a claim can be used to significantly influence the amount of premium which is paid at the time of purchase or renewal.

For example, if a person who has a \$2,500 home insurance policy with a \$500 excess increased the excess to \$2,000, the premium would reduce to \$2,050 - an 18 per cent reduction.

However, there is no trend toward high excesses in high risk locations, with 92.5 per cent of North Queensland policyholders choosing an excess of \$1,000 or less, compared to 93 per cent across Queensland.⁶²

Suncorp data also shows that minor claims represented 86 per cent of claims filed, and 29 per cent of the total claims cost. Most consumers want to have the comfort of knowing they are covered, even for small damage caused by weather events.

While it would be possible to exclude small items from policies, this would increase confusion and dissatisfaction for consumers. We believe that customers should have confidence that all household goods are covered, particularly at a time when the industry is focused on making our products easier to understand.

REPUTATION

Research has found that when purchasing home/building insurance, claims reputation is a key consideration for 25 per cent of people. Recommendations by friends, family and colleagues are a driver in five per cent of home building policy purchases, and good customer service in 10 per cent.

Suncorp has a long and proud history of being there for our customers when they need us most and we know our customers value our proven track record. As part of the community, we take seriously our role of helping residents, businesses, communities and even governments to bounce back, whether they are affected by a flood, fire or cyclone.

In the past 10 years, through Cyclones Marcia, Yasi and Larry, improvements in processes have resulted in:

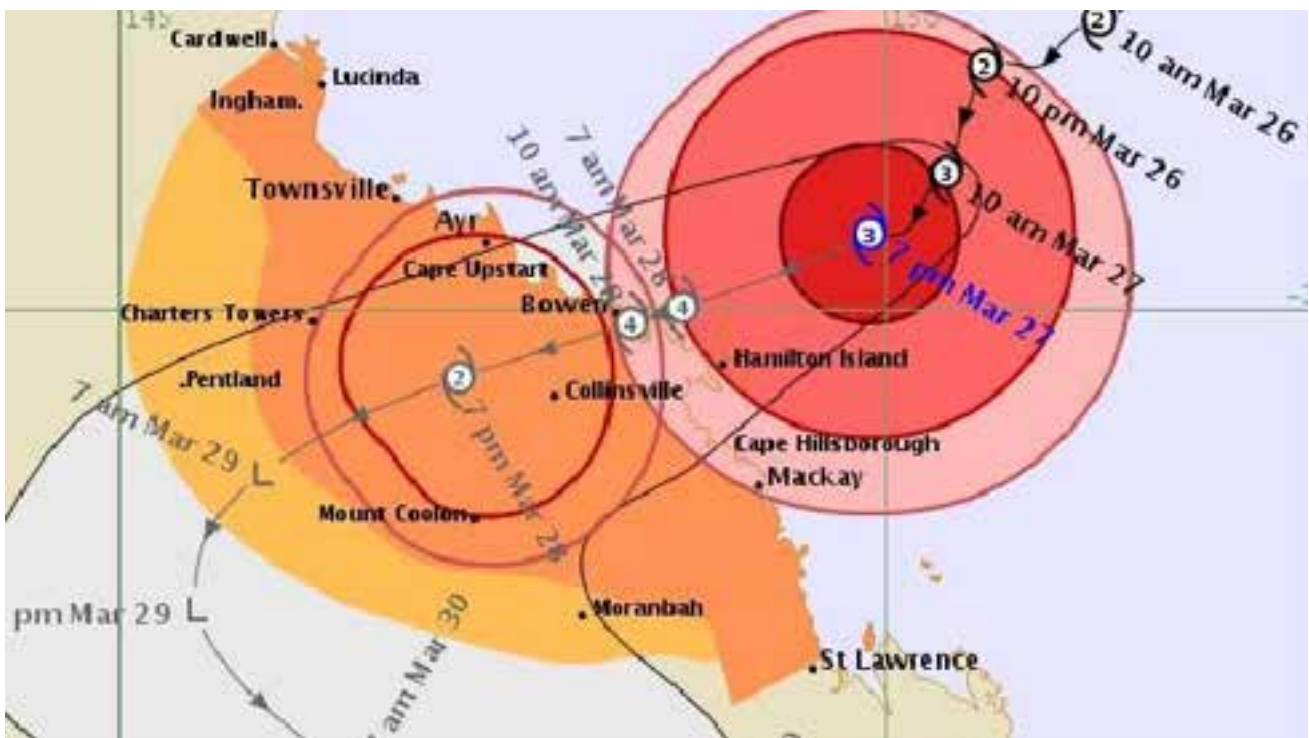
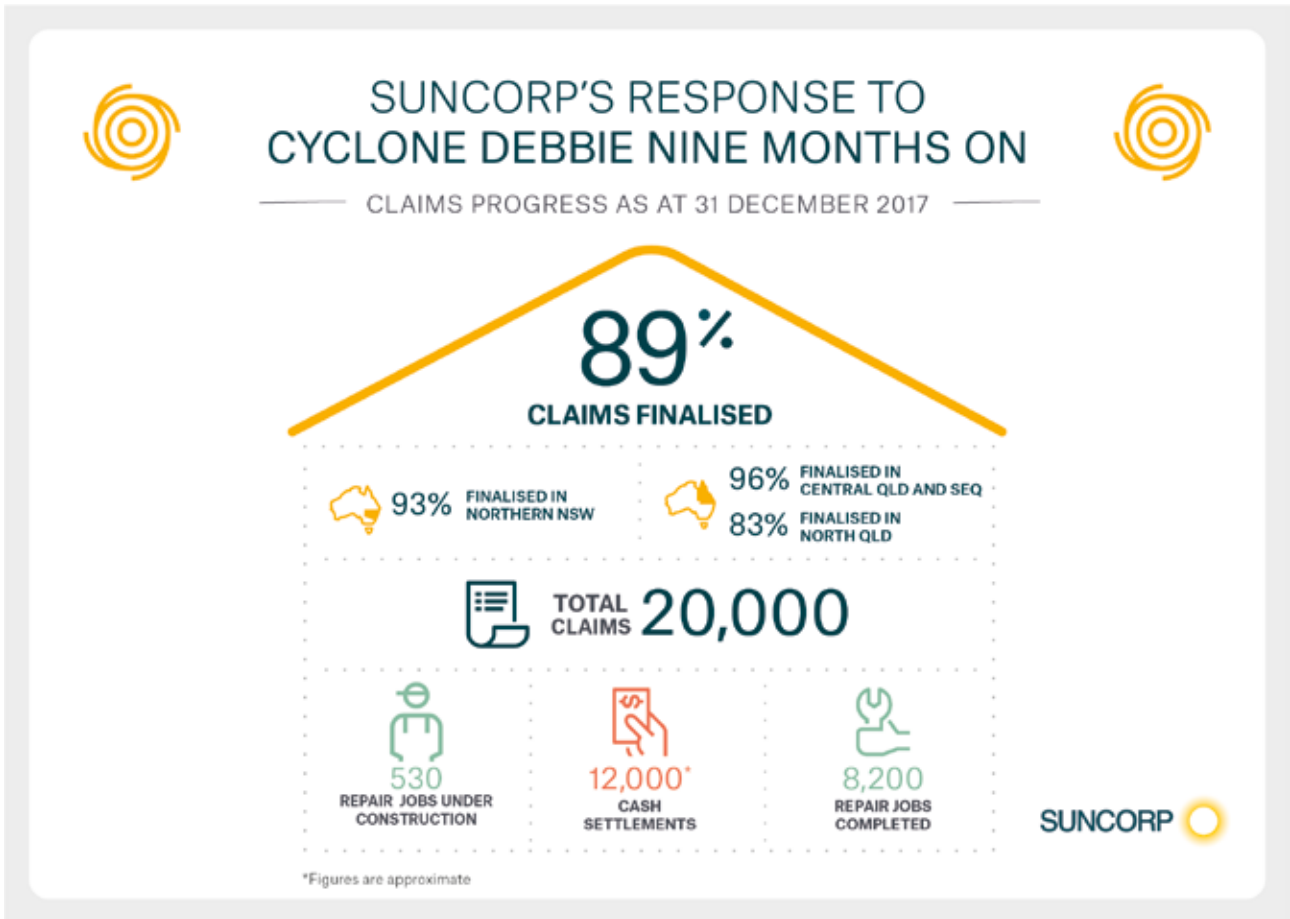
- Being able to be first on ground to make safe arrangements
- Driving the use of local builders and suppliers
- Offering \$300 for spoiled goods without receipts
- Having our customer response teams on the ground to help customers lodge their claims.

We consistently achieve high customer satisfaction – 82 per cent - a record we work hard to maintain. Nine months on from Cyclone Debbie, we have processed and closed 17,000 of the total 20,000 claims received – this result represents the highest volume of resolved claims in the shortest period of time.

61. Insurance Council of Australia, "Too Long; Didn't Read – Enhancing General Insurance Disclosure", October 2015. Available online at <http://www.insurancecouncil.com.au/assets/Effective%20Disclosure%20Report.pdf>.

62. Based on ICA analysis of member policy data

CUSTOMER OUTCOMES



Cyclone Debbie track map before and after landfall (Source: Bureau of Meteorology).

CUSTOMER OUTCOMES

BROKER CHANNELS

Suncorp has a number of channels by which consumers can purchase insurance products in northern Australia. Suncorp offers intermediated, or brokered, products through its Resilium and Vero brands. Underwriting agency Longitude, which is supported by Vero, writes strata policies through insurance brokers.

Suncorp believes brokers play an important role in the insurance industry for the following reasons:

- They assist with selecting and arranging appropriate, tailored insurance policies and packages
- They leverage technical expertise including knowledge of insurance markets, prices, terms and conditions, benefits and pitfalls of the wide range of insurance policies available on the market
- They obtain multiple quotes giving customers a range of options for coverage and price
- They interpret, arrange and complete insurance documentation
- They provide advice and guidance in predicting, managing and reducing risks; conduct risk management reviews and recommend risk mitigation actions that can reduce premiums
- They act on the customer's behalf in lodging a claim.

It is widely recognised in the insurance industry that commissions are paid to intermediaries such as brokers, representatives, distributors, strata managers, and agents for providing services as outlined in question 25 in the Issues Paper.

The commission paid to intermediaries is applied to the premium charged to the insured customer, however the commission level should be commensurate with the advice and service these intermediaries provide. The commission component may also replace a direct fee that other professional industries would normally apply.

Generally, intermediaries would represent an alternative to direct insurers, and do not carry many of the expense lines that direct insurers would carry and apply to premiums, for example advertising costs and infrastructure spend. Different distribution channels offer options to customers, while offering other services like risk management advice, multiple quotes and product comparisons.

Suncorp supports many distribution channels to ensure we connect with as many customers as possible depending on how customers choose to purchase their insurance. We believe this promotes competitiveness and we support full transparency by intermediaries when disclosing commission payments to their customers.

TAKE-UP RATES OF INSURANCE

The Issues Paper (at page 23) references a reported statistic from Good Shepherd Microfinance stating one in five adults in Australia do not hold a General Insurance product.

This statistic may be misleading if it is not given in the right context.

For many people, their home is their most valuable asset and they simply would not take the risk of non-insurance.

Previous ICA polling found 95 per cent of homeowners in North Queensland have building insurance - this is consistent with national figures and demonstrates that cost is not reducing insurance levels.⁶³

Furthermore, a growing number of people now rent and so do not need any building insurance. Data from Census 2016 shows a total of 31 per cent of the population owns a property outright, 30.9 per cent rents and a further 34.5 per cent own a home with a mortgage. It is likely that many of these renters would forgo contents insurance and might even skip comprehensive car insurance if they have a low-value car.

The Census also found more than 640,000 Australian households did not own a motor vehicle and a further three million only owned one motor vehicle.

So while financial inclusion is a national issue, those without insurance are generally those on low incomes, who rent and have decided not to take out contents or comprehensive car insurance. This data supports the NAIP taskforce view that:

*"There does not seem strong support for the idea that insurance premiums are causing a greater number of people in northern Australia to non-insure compared to the southern regions."*⁶⁴

Notwithstanding this, Suncorp has responded strongly to the issue of non-insurance in the community, offering our award-winning (*Essentials by AAI*) for people on low incomes to access affordable contents and motor insurance, for as little as \$4 a week.

More broadly, Suncorp became one of the first companies to participate in the Financial Inclusion Action Plan program, an initiative led by the Australian Government and Good Shepherd Microfinance. The program is designed to help Australians who are at risk of exclusion from financial services.

SWITCHING INSURERS

Suncorp believes the ability for consumers to easily switch insurers is greater than in any other market in the financial services sector. This is due to most products having a 12-month term, giving consumers a reminder and a prompt to consider other products that may exist that best suit their needs and circumstances.

There is also a significant amount of marketing expenditure across the industry focussed on enticing policyholders to switch. Many policyholders also opt for monthly instalments, giving them even greater flexibility to switch products at any time.

Most insurers observe customers exercising this choice firsthand. Suncorp, for example, sees thousands of our customers exercise their right to switch every month with just as many customers from other insurers coming on board.

63. Insurance Council of Australia, submission to Northern Australia Insurance Premiums Taskforce (18 September 2005), p 14. Available online at https://static.treasury.gov.au/uploads/sites/1/2017/06/R2015-002_ICA.pdf.

64. Australian Government (the Treasury), Northern Australia Insurance Premiums Taskforce, Interim Report (August 2015), p17.

CUSTOMER OUTCOMES

IMPROVING AFFORDABILITY

Government-led market intervention in North Queensland is not a viable solution. It does nothing to tackle the real issue. The Federal Government recently agreed with this fact when it responded to the Northern Australian Insurance Premiums Taskforce report on 18 December 2018 stating:

"In its assessment of policy options, the Taskforce found that mitigation activities to reduce the risk of damage from cyclones are the only way to reduce premiums on a sustainable basis. The Government accepts this finding, and will not intervene directly in the insurance market."

The only way to sustainably reduce pricing is to improve the resilience of homes, a view supported by multiple government inquiries. Not only does mitigation result in cheaper premiums, it has the substantial additional benefits of keeping people safe, growing the economy, and creating jobs.

Suncorp has long been a passionate advocate for natural disaster mitigation and for several years has been focused specifically on addressing the complex issue in North Queensland through our award-winning Protecting the North program. The premise of Protecting the North is that the complex issue of insurance affordability in cyclone-prone areas can be addressed through a combination of actions undertaken by governments, industry and the community.

Changing climate patterns mean that cyclone risk in northern Australia will increase over time – and a response to minimise the impact of this risk requires all parties to work together to drive a solution. That solution is a combination of resilience building, including reform of building codes and planning laws, tax relief, and education.

Suncorp has been leading this important work and has made significant inroads. However, collective action is now needed to ensure that confidence is maintained in northern Australia, and that those who live and work in the region, do so safely and affordably.

THE BENEFITS OF MITIGATION

Effective mitigation investment will lead to:

- Sustainable insurance affordability improvements
- A range of community and social benefits due to a lower level of damage and disruption after a disaster
- Strong economic benefits from building resilient communities and productivity gains.

KPMG modelling shows that, over 10 years, a \$250 million annual investment in disaster mitigation could result in a \$6.5 billion boost to GDP, while a reinsurance pool approach reduces GDP over the same period.

Suncorp commissioned a cost-benefit analysis on key regional flood mitigation projects in 2014. It found two flood levees built in regional Queensland towns would deliver economic returns of around five times the cost. The analysis shows that for capital and running costs of \$5.9 million, St George's flood mitigation project will deliver protective benefits totalling \$31.6 million over the next 50 years for a benefit cost ratio of 5.4. Roma's project cost is \$16.4 million, delivering protective benefits totalling \$81.1 million over the next 50 years for a benefit cost ratio of 4.9.

Most recently, early analysis is showing Launceston's recently completed \$50 million flood mitigation infrastructure has already paid for itself four times over after protecting many assets and buildings during the Tasmania floods in June 2016.

Creating demand for mitigation also has flow-on benefits. Leading economic firm Urbis identified that an incentive program creating a market for cyclone resilience building retrofits is likely to boost innovation and drive down costs over time:

Experience curves for other products, notably solar panels, but also energy-efficiency innovations in the building sector more generally, demonstrate the potential for mitigation options to improve pricing outcomes over time. For example, capital expenses for solar are forecast to fall in Australia by over 40%, between 2010 and 2030, as the use of solar becomes more widespread (Hearps & McConnell, 2011).⁶⁵

The current approach to natural disaster funding is weighted toward disaster recovery funding, with limited levels of investment in preventative disaster mitigation. This results in the inefficient practice of minimising costs upfront only to be faced with significant recovery bills following each disaster. This was recognised by the National Commission of Audit which characterised recovery funding as a

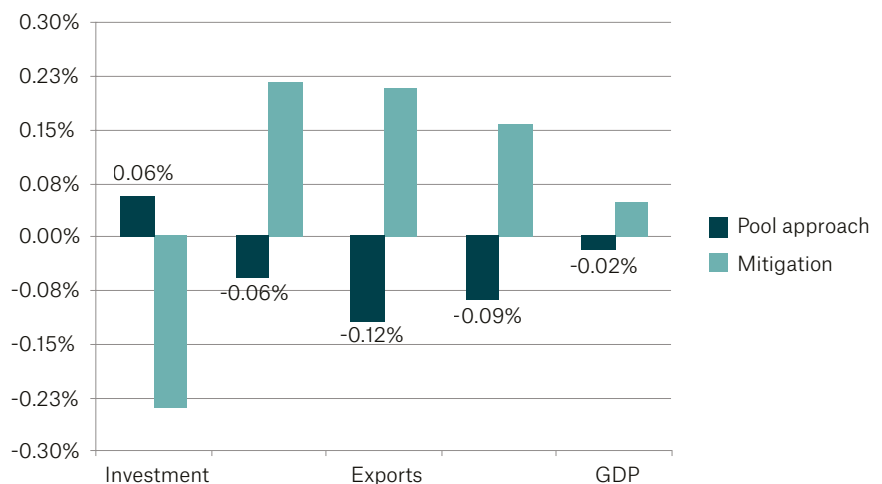


FIGURE 2: Key modelling results - impact in the year of the event (or every ten years) total accumulated cost of the pool/mitigation over ten years and the total cost of one event (deviation from baseline, percentage)

Source: KPMG

65. Urbis, *Protecting the North: the benefits of cyclone mitigation*, 2015, piii

CUSTOMER OUTCOMES

“large and volatile expenditure [which] poses significant and ongoing risks to the Budget.”⁶⁶

Current arrangements also lead to the highly inefficient practice of rebuilding assets and infrastructure to the original standard, maintaining high levels of risk and allowing the benefit of recovery investment to be wiped out by subsequent disasters. Any approach to reducing premiums that does not focus on mitigation will fail to reduce the cost of cyclone recovery and lock in a cycle of high premiums and government subsidies.

Suncorp’s Protecting the North research undertaken by James Cook University’s CTS suggests significant economic benefits from cyclone resilience home retrofits. Improvements could save homeowners and the economy up to \$13 for every dollar invested, and significantly reduce the amount of damage caused when a cyclone hits. Some mitigation options pay for themselves after one Yasi-like cyclone.

Earlier this month, the National Institute of Building Sciences in the United States released the *Natural Hazard Mitigation Saves: 2017 Interim Report*. Its analysis found mitigation funding can save the nation \$6 in future disaster costs, for every dollar spent on hazard mitigation.

The Institute also examined the potential to design new buildings to exceed certain building codes and standards and found investing in hazard mitigation measures to exceed certain requirements can save the nation \$4 for every dollar spent.⁶⁷

REGULATION OF POLICY INFORMATION

Suncorp believes that, despite best intentions, regulation can actually inhibit the optimal provision of information to consumers. For example, Key Facts Sheets were introduced to help consumers compare products. In Suncorp’s experience, these extra, legally mandated documents are part of the problem of ineffective

information provision. Research conducted for the ICA indicates that only about 50 per cent of customers are even aware of, let alone read, insurers’ Key Facts Sheets.

An ICA Effective Disclosure Taskforce concluded that effective disclosure, relevant to the individual consumer’s decision-making, cannot be achieved simply by reference to a mandated minimum benchmark, such as that set by the highly prescriptive Key Fact sheets.⁶⁸ Suncorp agrees, and believes a more effective regulatory approach would encourage concise communication in fewer pages (up front, within existing Product Disclosure Statements, for example).

UNFAIR CONTRACT TERMS

Suncorp notes the suggestion made in the Issues Paper to include insurance policies in the Unfair Contract Terms (UCT) legislation. The Federal Government recently announced further consultation on this issue.

Suncorp recognises the importance of UCT legislation for most consumer contracts. However, there are already a range of strong consumer protections in place for insurance contracts, including the duty of utmost good faith set out in the Insurance Contracts Act 1984.

Caution is needed when considering the extension of unfair contract term provisions to insurance contracts. Any changes to unfair contract terms protections need to be developed carefully and in close consultation with the industry, or they risk jeopardising customer experiences and adding unnecessary complexity to insurance processes.

Poorly designed UCT measures for insurance contracts could create a significant compliance burden for the industry without necessarily improving consumer outcomes. In addition to country and region risk specific factors, reinsurers rely on industry standard policy wordings to help inform the setting of their baseline prices and assumptions.

The removal of the UCT exemption could change the scope of the coverage provided, and global reinsurers will view this as being non-industry standard policy wordings. This will increase the price that Suncorp would need to pay for reinsurance coverage putting further pressure on premiums.

More generally, it will also negatively affect our reinsurers’ ability to transfer the risk any further via retrocession reducing the available capacity in the market. This reduced capacity will ultimately flow through as additional costs to all insurers which they in turn would need to recover from customers. The change in coverage could also have an impact on the amount insurers would need to set aside to satisfy APRA’s prudential capital requirements, which would also lead to a reduced capacity to underwrite risks.

66. National Commission of Audit, *Towards Responsible Government, Phase One Report, February 2014*, pg. 187.

67. <http://www.nibs.org/page/mitigationsaves>

68. *Insurance Council of Australia*, n 50, p3.



Conclusion

Suncorp's overriding objective is to create value for our customers. We want insurance to remain affordable so our customers can live, work and play, safe in the knowledge they are covered when things go wrong.

But if insurance is to continue to be sustainable, risk must carry the right price signal. The projection of more severe catastrophes with the change in climate presents the greatest threat to affordability in northern Australia.

Disaster mitigation, particularly cyclone resilience, will deliver sustainable relief in northern Australia as well as a range of other economic and social benefits

as numerous inquiries and studies have demonstrated over a number of years.

Close partnerships between all levels of government, industry bodies, community groups and households will be necessary to drive a functional mitigation and resilience market and culture.

Only when we are each playing a meaningful role can vulnerable communities be equipped with the right incentives, relief measures, building standards and know-how to strengthen community resilience.

It is time to Protect the North together.

PROTECTING THE NORTH

An Insurance Affordability and Cyclone Resilience Policy Proposal



Contents

INTRODUCTION	3
PROTECTING THE NORTH - ACTIVITIES	6
1. Suncorp	3
1.1 EXISTING INITIATIVES.....	4
1.2 NEW INITIATIVES – PROTECTING THE NORTH	5
1.2.1 Expansion of the Cyclone Resilience Benefit.....	5
1.2.2 Introduce a Cyclone Resilience Benefit for strata buildings	5
1.2.3 Build To Last - Retrofit Design Competition.....	5
1.2.4 Climate Adaptation Study.....	6
1.3 CUSTOMER RECOGNITION AND REWARD	6
2. Federal Government	6
2.1 REDUCED GST ON INSURANCE PREMIUMS	6
2.2 COMMUNITY AWARENESS CAMPAIGN.....	7
2.3 FACILITATE ACCESS TO FINANCE.....	7
2.4 COMMIT TO A REVIEW OF THE BUILDING CODES	8
2.5 USE NAIF FUNDS TO INVEST IN COMMUNITY RESILIENCE AND COMMUNITY MITIGATION INFRASTRUCTURE	8
2.6 FEDERAL GOVERNMENT LEADERSHIP ON MITIGATION	8
2.7 STRATA ENGINEERING ASSESSMENTS	9
3. State Government.....	9
3.1 REDUCING STAMP DUTY	9
3.2 HOME OWNER EDUCATION ABOUT DISASTER RESILIENCE	10
3.3 FUNDING ASSISTANCE FOR HOME RESILIENCE ENHANCEMENTS.....	11
3.4 RESPONSIBLE COASTLINE PLANNING & DEVELOPMENT	11
4. Where to from here	11
ATTACHMENT A: CYCLONE PROOFING NORTH QUEENSLAND HOMES	12
ATTACHMENT B: CYCLONE READY STREETS.....	17

Introduction

The premise of *Protecting the North* is that the issue of insurance affordability in cyclone-prone areas can be addressed through a combination of actions undertaken by governments, industry and the community.

Changing climate patterns mean that cyclone risk in northern Australia will increase over time – and a response to minimise the impact of this risk requires all parties to work together to drive a solution. That solution is a combination of resilience building, including reform of building codes and planning laws, tax relief, and education.

Outlined in this policy proposal are activities and responsibilities that each party could undertake as part of the *Protecting the North* initiative. Suncorp has been leading this important work and has made significant inroads. However, collective action is now needed to ensure that confidence is maintained in northern Australia, and that those who live and work in the region, do so safely and affordably.

Protecting The North - Activities

1. Suncorp

Suncorp's *Protecting the North* package is a major insurance, economic and safety initiative for North Queensland.

At the heart of the policy are practical solutions to tackle insurance affordability by reducing cyclone risk and rewarding mitigation activities that strengthen homes and communities.

Protecting the North commenced in 2014 with a research program conducted in partnership with the Cyclone Testing Station (CTS) at Townsville's James Cook University (JCU), aimed at better understanding cyclone impacts.



Evidence-based findings were then applied by Suncorp with the introduction of a range of insurance and banking products and initiatives to incentivise home owners to embrace mitigation strategies that would ensure stronger, more resilient homes.

As an acknowledgement to those customers who strengthened their windows, roofs and garages, Suncorp introduced the award-winning Cyclone Resilience Benefit. This Benefit delivers lower premiums as a result of customers implementing cyclone-resilient measures. Additionally, we launched an innovative and competitive strata insurance product, and low-interest personal loans for mitigation activities.

The Protecting the North program is ongoing with further research underway with the CTS which will drive additional streams of work, particularly around strata.

1.1 EXISTING INITIATIVES

The core features of *Protecting the North* include:

- Cyclone Resilience Benefit (CRB):** In March 2016, Suncorp Insurance launched the CRB which rewards customers in North Queensland with premium reductions of up to 20 per cent for making their homes more cyclone resilient. This initiative was developed using extensive claims analysis and research in partnership with the Cyclone Testing Station (CTS) at James Cook University (JCU). The project identified five key measures that make a demonstrable difference to a property's ability to withstand the impacts of cyclones. More than **35,000** Suncorp customers in North Queensland have now received an insurance premium reduction for different features and upgrades, from basic home maintenance to roof upgrades. This has sent a strong price signal to the market that reducing cyclone risk makes premiums more affordable. A claims analysis conducted following Cyclone Debbie found that customers who reported CRB measures and features were less likely to lodge a large insurance claim. This clearly demonstrates that mitigation measures protect the home owner and their families during high-wind speed events. Such is this program's success; other insurers are now following Suncorp's lead and introducing similar rewards that offer the same level of premium reductions.
- Small Strata:** In April 2015, Suncorp released a new strata insurance product into the market. The product is designed to provide cover for small residential strata titled properties, community titled properties or residential properties associated with a body corporate or owner's corporation (up to 10 units or \$5 million sum insured). As smaller strata properties carry a simpler risk profile than larger buildings, the product can be sold directly from Suncorp call centres and online without intermediary services. The direct channels make the product approximately 20 per cent cheaper than competitors. Since the launch, around 3,500 Suncorp strata insurance policies have been sold, covering approximately 10 thousand individual units.
- Resilience Improvements:** The strata insurance product contains an industry-first resilience feature which supports customers to enhance their building's resilience. When the policyholder is making a large claim, Suncorp Insurance contributes up to \$10,000 to the net costs associated with building enhancements (such as cyclone-rated shutters and wind resistant roller door bracing).
- Low income Insurance:** In September 2015, Suncorp teamed up with Good Shepherd Microfinance to roll out an insurance product that provides low-income earners with contents and motor cover from as little as \$4 a week. The award-winning *Essentials* was created to provide better access to affordable, easy-to-understand products via a trusted network of providers. Since launch, nearly 1,000 *Essentials* products have been sold to the most financially vulnerable Australians.
- Protecting the North Bank Loan:** Suncorp's Banking and Wealth team now provides a no-fee, low-interest bank loan designed to help North Queensland customers finance mitigation improvements made to their homes to make them more resilient to cyclone damage. The new low-cost personal loan features an interest rate of 4.99 per cent per annum and Suncorp waives all establishment and account keeping fees.
- Cyclone Ready Streets:** Suncorp initiated the *Cyclone Ready Streets* program to raise awareness and promote behavioural change toward improved community preparedness for cyclones. Claims data analysis from Cyclone Yasi indicated a concerning level of complacency in the North Queensland community showing that nine out of ten claims were small and largely preventable. Working in conjunction with the Townsville City Council (TCC), Suncorp launches the program on Cyclone Sunday which is held each year, as a call to action to prepare for cyclone season. In last year's pilot campaign, Suncorp and TCC saw more than 50 neighbourhoods and more than 200 households participating in this program. Importantly, basic, regular maintenance, such as the actions encouraged in the campaign, is one of the measures Suncorp rewards as part of its CRB.

1.2 NEW INITIATIVES – PROTECTING THE NORTH

1.2.1 Expansion of the *Cyclone Resilience Benefit*

Understanding the impacts cyclones have on homes in North Queensland is a continual learning process. Ground-breaking research has uncovered common vulnerabilities in housing stock during heavy, cyclonic winds, and the options to reduce impacts. These Australian-first findings have paved the way for the current iteration of the CRB which has been in the market for 18 months.

Through its partnership with the CTS, Suncorp is currently researching further practical improvements and retrofit opportunities that may improve resilience, which, in turn, could be rewarded under an expanded Benefit.

The jointly funded research project (with IAG) is examining claims generated after cyclones Marcia (Central Queensland) and Debbie (Whitsunday region), and looking specifically at water damage, wind-driven rain, and strata properties in North Queensland.

As part of this research, JCU has uncovered significant gaps in the current building standards. There is no regulatory specification for minimum fixings of flashing for either minimising water ingress, or failure of flashings. As a result, water ingress has been shown to be a major driver of insurance claims after a weather event.

Similarly, better designed, constructed and fitted glass doors and windows would significantly reduce the risk of damage from wind-driven rain. A full report, due in 2018, may recommend further mitigation activities which could see the CRB increased above 20 per cent. Suncorp will await the final report to further inform our decision.

1.2.2 Introduce a *Cyclone Resilience Benefit* for strata buildings

Suncorp will analyse this year's report from the CTS study to assess the potential of a CRB that could deliver affordability relief for strata buildings. Findings are expected to recommend different mitigation actions for strata than the previous home claims analysis.

Suncorp will assess the effectiveness of any mitigation actions in reducing the likelihood of cyclone claims in making a decision whether to develop a new benefit for strata.

1.2.3 *Build To Last* - Retrofit Design Competition

Suncorp is investigating the feasibility of a national *Build to Last* retrofit design competition to bring the building and engineering industries together, champion best practice in retrofit building methods and products, and help position North Queensland as a centre of excellence in cyclone resilience.

The competition will identify, foster and develop smart, innovative and effective resilience solutions (e.g. low-cost re-roofing solution) to common drivers of cyclone claims.

The *Build to Last* retrofit design competition has several objectives, including:

- Identifying low-cost, attractive building retrofit projects and techniques which enhance the ability of houses to withstand cyclonic wind speeds with a focus on cheaper re-roofing options
- Engaging the North Queensland building and engineering sectors to grow support for the economic and community benefits of mitigation and retrofits and drive a resilience culture in the north.
- Demonstrating Suncorp's commitment to reducing cyclone risk in North Queensland and the economic and safety benefits a retrofit program can deliver.

Competition prize money could be used to help commercialise winning solutions that demonstrate low-cost, smart design, applicability and amenity.

Homeowners would be incentivised through the CRB to adopt cutting edge, innovative products or retrofit resilience solutions in their homes.

1.2.4 Climate Adaptation Study

Suncorp is looking to work with one of its global partners to conduct a climate adaptation study in North Queensland.

Suncorp believes more information is required to understand the increasing natural hazards northern communities will face as the impacts of climate change grow. For instance, rising sea-levels and an increasing incidence of storm surge will have a significant impact on properties and assets. Left unchecked, this will create further pressure on insurance; therefore, it is vital to understand how communities can adapt to climate change.

We know investment in prevention and climate adaptation is cheaper and more effective than costly relief efforts once a disaster has struck. Initiatives may include physical defences such as levees, strengthening sea walls, environmental defences such as restoring coastal sand dunes, responsible planning decisions (especially limiting construction of homes in flood plains) and improving building codes. Numerous reports have found that effective mitigation can pay for itself many times over, compared to the expensive, disruptive process of rebuilding and recovery. In the case of cyclone mitigation in the home, the benefit could be as much as 13 times the cost.

1.3 CUSTOMER RECOGNITION AND REWARD

One of the pillars of Suncorp's strategy is the development of a *Customer Recognition and Reward* program which will include North Queensland. The program will seek to support customers with their financial wellbeing, and potentially include savings on our products and services.

2. Federal Government

2.1 REDUCED GST ON INSURANCE PREMIUMS

Government taxes form a significant component of home insurance premiums in North Queensland and the problem is exacerbated in high-risk properties with higher premiums. For instance, a Brisbane home with a 'technical premium' of \$1,500 will pay \$150 less premium than a Townsville home with a 'technical premium' of \$3,000.

Policy options should be considered to reduce this higher tax burden on North Queenslanders. For example, the Federal Government could provide relief by removing a portion of GST payable on insurance premiums in a defined area of North Queensland where cyclone risk is highest. The Government might also consider providing a tax rebate on insurance premiums (making a portion tax deductible) similar to the private health insurance rebate. Again, this could apply to those living in a defined area where cyclone risk is highest.



2.2 COMMUNITY AWARENESS CAMPAIGN

North Queensland would benefit from effective community awareness campaigns to improve insurance literacy and the community's understanding of individual risk, community risk and how it translates to insurance pricing.

There is a role for government to play at the community level in communicating risk, talking about risk and acting on risk. Government should be cognisant of insurance implications where local governments grant development approval in risk-prone areas.

Clearly, there is also a role for industry to play in better educating customers and communicating effectively on issues of insurance literacy, excess levels, premium pricing and how industry prices risk.

From Suncorp's 100 years of experience helping Queenslanders through adversity, we believe the risk of natural disasters, particularly cyclones, is still not well understood by the wider community. Insurance should not just be an afterthought when buying a home.

Suncorp has partnered with the TCC on an awareness campaign known as *Cyclone Ready Streets* to address the issue of complacency in preparedness, to educate the community and encourage behavioural change in a high-risk area like Townsville.

Extensive research from Cyclone Yasi (2011) found the clear majority of insurance claims involved small, and largely preventable, damage. They made up about a quarter of the total claims cost for Cyclone Yasi.

Suncorp and TCC have the blueprint for a successful program which could easily be rolled out in other regional centres with support from governments.

Suncorp recommends governments consider investing further in effective campaigns like *Cyclone Ready Streets* to drive participation, expand their reach and contribute to higher levels of cyclone preparedness in the community.

2.3 FACILITATE ACCESS TO FINANCE

Once a home owner is equipped with the right information and recommendations on how to improve their cyclone resilience, they may need access to funding.

JCU research on homeowner attitudes suggests that efforts should be undertaken to make it easier to finance resilience retrofits. While the research is ongoing, a government rebate to reduce the cost of installation appears to be popular, with homeowners reporting that they are likely to implement future property upgrades if they receive a government rebate. The successful solar panel rebate scheme demonstrates that, given an incentive, Queenslanders will be motivated to act.

The Government should consider the following finance options:

a. Federal Government concessional loans

The Federal Government could offer concessional loans to homeowners through the Northern Australia Infrastructure Facility (NAIF).

Criteria for eligible projects under the NAIF could be revisited to support other types of large scale projects that will economically benefit the North. Natural disaster mitigation makes economic sense at both a community and household level.

Such a scheme would support the broader objectives of the NAIF, providing a substantial economic boost to the region in addition to creating the broader economic, social and environmental benefits that come with resilience.

Government-sponsored mitigation programs have been successful overseas and a similar model could be considered for Northern Australia, either through a grant or loan scheme.

My Safe Florida Home is a hurricane inspection program that commenced in 2007. Around 400,000 single family residential properties were inspected, and grants provided to 35,000 applicants. The highly successful program averaged around 5,000 registrations per day, with homeowners receiving a free wind inspection report with advice on how their home could be protected from storm and how much they could save on insurance premiums.

b. Capped funding assistance for 'at risk' individuals

The Federal Government could provide access to grants or rebates for homes that pass specific criteria. The grants could be means tested and the homeowner could be expected to make their own contribution towards the retrofit cost.

The funding would be used to carry out simple low cost upgrades (as per Attachment A) or purchase protection for their home like *Cyclone Protection Australia's* AstroGuard product.

2.4 COMMIT TO A REVIEW OF THE BUILDING CODE

Suncorp believes an out-of-cycle review of the National Construction Code (NCC) is necessary as it relates to northern Australia.

JCU has uncovered several concerning shortcomings in the Code, which should warrant a review.

In addition to flashings referred to above, the current code does not adequately address water ingress. Ingress can occur irrespective of wind speeds and without any other notable structural damage, even when windows and doors are closed.

Current regulations are designed to protect loss of life but do not prevent damage to contents and possessions. Wind-driven water ingress from windows and other vulnerability points is a significant driver of claims cost and leads to extended repair and recovery times, further disrupting communities after a severe weather event.

The Federal Government should work with JCU to review the existing Code and identify the major failures.

This is particularly important given the Federal Government's current agenda to escalate and spur development throughout Northern Australia.

This may not assist the existing housing stock but it will ensure new buildings in the north are being designed and constructed to the highest possible standards.

2.5 USE NAIF FUNDS TO INVEST IN COMMUNITY RESILIENCE AND COMMUNITY MITIGATION INFRASTRUCTURE

Suncorp has long held the view that investing in mitigation will build safer communities and a more sustainable future for the north. Funds from the NAIF could be used to invest in community resilience and mitigation infrastructure in high risk areas like Rockhampton.

For example, flood solutions should be tailored to meet local conditions. Suncorp recommends the Federal Government work with local Councils to determine the best mitigation solution for their region.

Industry can advise Government and Council on the regions and suburbs with the highest exposure to natural perils, focusing on larger towns with large population centres.

2.6 FEDERAL GOVERNMENT LEADERSHIP ON MITIGATION

There is a role for the Federal Government to take a leadership position on mitigation by making public, positive commitments and statements in its support. Responding positively to the Northern Australia Insurance Premiums (NAIP) Taskforce Report, which recommended mitigation as the best way to sustainably reduce insurance premiums in cyclone prone areas, would drive positive behavioural change in the north, particularly if this was backed by some financial incentive that motivates homeowners to act.

In addition, the Senate Standing Committee on Economics recently recommended "*that the Australian Government reconsider its response to the Productivity Commission's inquiry on National Disaster Funding Arrangements*" (page xi - Australia's general insurance industry, 2017).

The Commission made several recommendations to improve Australia's preparedness for natural disasters including to increase five-fold the level of Federal Government funding for disaster mitigation, to be matched by states and territories.

2.7 STRATA ENGINEERING ASSESSMENTS

In 2014-15, the Federal Budget allocated \$12.5 million to the Queensland Government for strata-title engineering assessments in North Queensland. The papers stated the assessments should identify risks that can be mitigated.

It stated: *"The assessments will provide better information to insurers which will enable them to set premiums that more accurately reflect individual property risks. The assessments will also help residents of strata-title properties to be fully aware of the risks to their properties from natural disasters. This will provide bodies corporate with an opportunity to take necessary action to mitigate those risks and reduce their risk assessment by insurers, and ultimately reduce insurance premiums in some cases"* (Federal Budget 2014-15, Budget Paper No. 2).

Suncorp joined the insurance industry in welcoming the funding as an initiative that would go a long way towards better understanding strata risk in the region. There is still much room for improvement in the area of risk data and such reports will help industry more accurately and confidently price strata buildings in North Queensland.

Suncorp is uncertain of the status of this funding but looks forward to assessments being conducted in the region as soon as possible.

3. State Government

3.1 REDUCING STAMP DUTY

The insurance duty rate for both class 1 and class 2 general insurance in Queensland is 9 per cent of the premium paid (including GST).

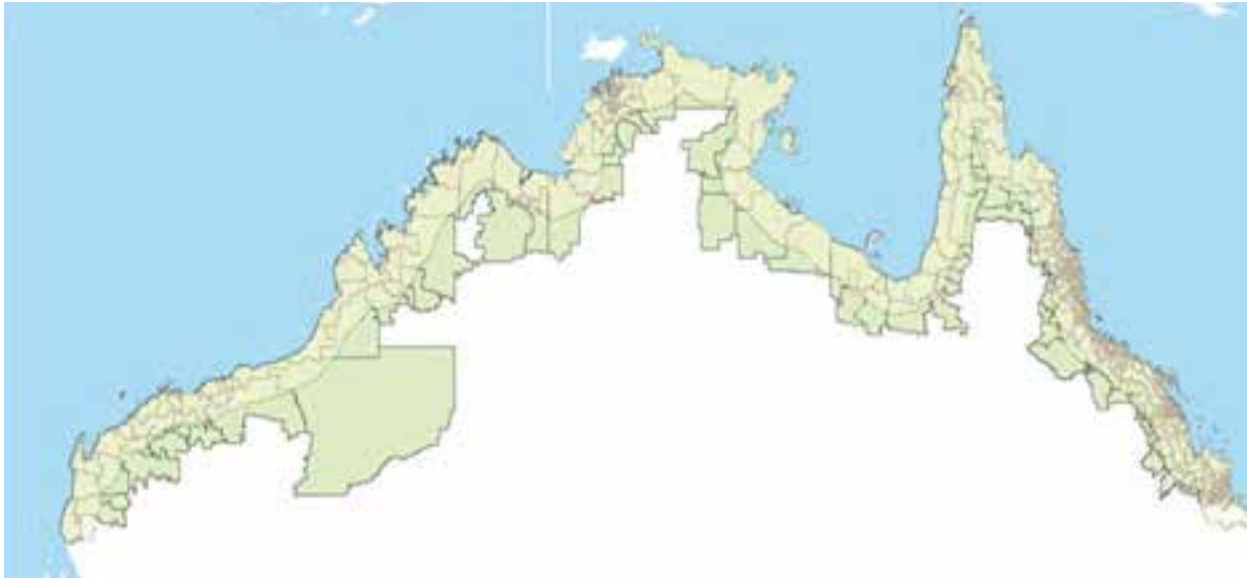
In 2014, the stamp duty was increased from 7.5 per cent to the current 9 per cent rate, making insurance in Queensland more expensive.

The Queensland Government charges 9 per cent duty on 110 per cent of a customers' premium because duty is applied after GST has already been added.

The Queensland Government should reduce stamp duty charges for home owners in the north.

Suncorp recommends using the CRB zone as a guide for the most at risk communities in the north, outlined in Table 1.

The resilience rating applies to Suncorp customers living in northern Australia, (suburbs within 100km of the coastal line of Tropic of Capricorn, north).

TABLE 1: Cyclone Resilience Benefit zone

3.2 HOME OWNER EDUCATION ABOUT DISASTER RESILIENCE

In addition to ground-breaking research conducted with JCU about cyclone impacts and mitigation options, Suncorp has also recently engaged behaviour change experts at JCU to undertake research on homeowner attitudes about these issues as part of Suncorp's *Protecting the North* program.

While the research is ongoing, early indications suggest many North Queensland residents would be interested in having their homes evaluated for cyclone readiness. We believe a Government-led scheme with this objective would see strong take-up rates in populated centres of North Queensland.



This could involve a scheme where homeowners have access to qualified professionals to audit their properties and provide advice on upgrades, improvements and/or retrofits to strengthen their home against cyclone damage.

A sample list of simple low cost to major upgrades and retrofits that may be recommended is attached (Attachment A). The audit scheme would assess an individual property's disaster risk, identify points of vulnerability/ingress/weakness, suggest upgrades and retrofits, and recommend preferred suppliers.

It is important to prevent one failed element of a structure from setting off a chain reaction of failures across the building.

This could be a scheme subsidised by either the Queensland or Commonwealth Government. The homeowner would make a modest co-payment to access the scheme.

Queenslanders have shown strong appetite for expert advice on home improvement and sustainability. A highly successful *ClimateSmart Home Service* saw more than 330,000 homes undergo subsidised energy and water efficiency audits from 2009 to 2012.

3.3 FUNDING ASSISTANCE FOR HOME RESILIENCE ENHANCEMENTS

The Queensland Government allocated \$20 million in this year's State Budget for a household natural disaster resilience program. The Regional Action Plans for North Queensland stated: *"The program will focus on the highest risk areas in Queensland where household mitigation measures, as opposed to Government mitigation works, would be effective in preventing or reducing damage."*

Suncorp is encouraged by this development and will await further details from the Queensland Government about the initiative. It is possible that this funding could be directed to a broader policy package such as *Protecting the North*.

3.4 RESPONSIBLE COASTLINE PLANNING & DEVELOPMENT

Communities need to see governments properly planning for climate impacts along North Queensland's coastline. In recent years, we have seen state planning instruments (Queensland Coastal Plan) watered down and local governments given directives to take projected 'sea-level rise' out of their local planning schemes.

While the reinstatement of 'sea-level rise' as a factor in the coastal hazard mapping has gone some way to correcting poor planning, more development in harm's way has continued in recent years.

Deferring a change in planning and development approaches will mean that more properties are built in hazard-prone areas, and there may be a growing number of properties with reduced value and increased insurance premiums. Planning for impacts now will let governments spread the huge cost burden of dealing with sea-level rise over time.

4. Where to from here

As part of its formal response to the Northern Australia Insurance Premiums Taskforce the Federal Government could consider a launch announcement at the Cyclone Sunday event in Townsville on 29 October, which is held as part of community preparations ahead of cyclone season.

The Government could announce a roundtable bringing together all levels of government, industry, community and other experts, to workshop a national approach to building resilience around natural disasters – beginning with cyclone mitigation.

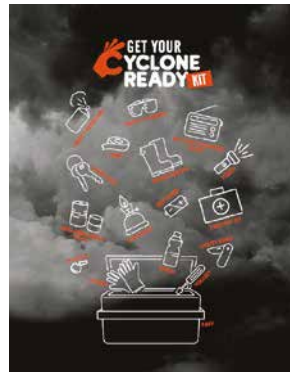
This is topical, following the severe hurricane season in the United States and provides an opportunity to seize the initiative by way of preparedness in Australia ahead of this year's cyclone season.

The roundtable could develop a framework for forward activity, which, in its initial phase, could include an Advisory Council and education campaign.

ATTACHMENT A: CYCLONE READY NORTH QUEENSLAND HOMES

LOW COST PREPAREDNESS ACTIVITY

- Recommend that home owners check with their local council before storm season to determine if their home has been built to cyclone standards
- Check walls, roof and eaves are secure
- Trim treetops and branches well clear of the property (with council permission)
- Fit shutters, or at least metal screens, to all glass areas
- Clear loose material that could blow about and possibly cause injury or damage during extreme winds
- Prepare an emergency kit and keep a list of emergency numbers on display.



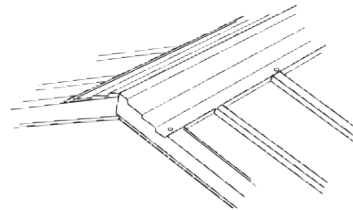
ROOF UPGRADES

1. COMPLETE ROOF REPLACEMENT

- A complete roof replacement includes – not only the replacement of the external cladding (e.g. tiles, iron, steel, and appropriate flashings) but also the upgrade of batten to rafter attachments, and upgrading tie-downs from rafter or truss to the top plate of the wall framing.

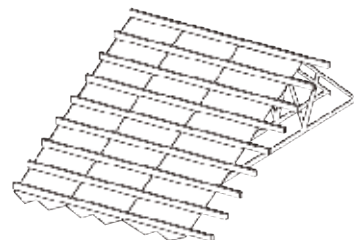
2. RIDGE CAPS (ON TILED ROOF)

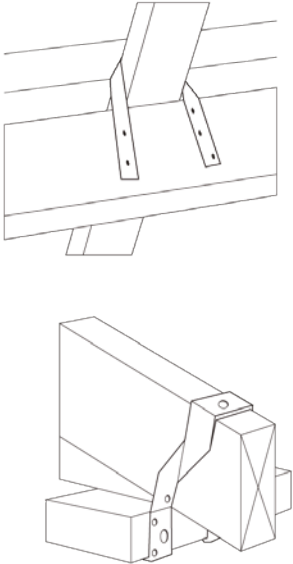
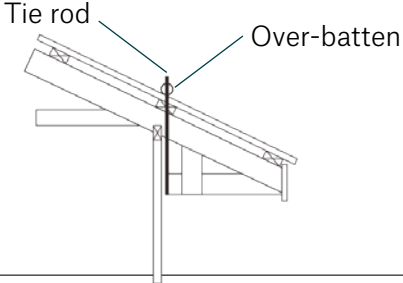
- Ridge capping is triangular shaped tiles or sheeting that covers the joint where two faces of a roof meet.



3. SARKING

- Roof sarking is a layer of protection placed underneath roof tiles or sheeting to help prevent wind driven rain and dust from entering the home.

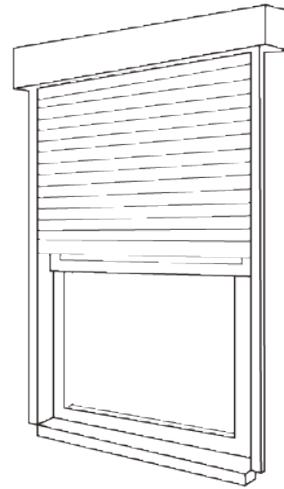


ROOF UPGRADES	
<p>4. UPGRADE TO SCREW AND STRAP CONNECTION IN THE ROOF</p> <ul style="list-style-type: none"> • Roof connections in older homes can be strengthened by upgrading or replacing how the framing is held together. New straps or screws can be applied to any of the following: <ul style="list-style-type: none"> a. Roof cladding to the battens b. Batten and collar tie connections to the rafters c. Rafters or trusses to the top plate of the wall framing. 	
<p>5. ROOF OVER-BATTEN SYSTEM</p> <ul style="list-style-type: none"> • This retrofit system connects a beam on the top of the roof to the foundations to make the roof more secure. 	

WINDOW PROTECTION

1. CYCLONE PROTECTION

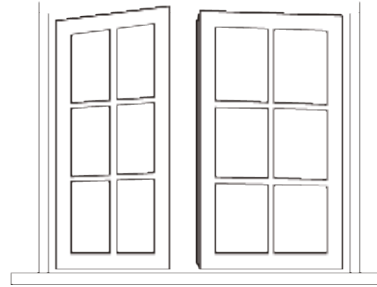
- A cyclone shutter is a specialised shutter/guard, permanently or temporarily fitted to the outside of a home, which has been developed and tested to protect a home from the impact of cyclones.
- One excellent example is a product from Cairns based company **Cyclone Protection Australia** who use AstroGuard to protect homes. AstroGuard is a high strength, high intensity nylon hybrid fabric coated in an ultra-durable, UV resistant resin. It's lightweight, stores easily and can be rapidly installed when a cyclone or storm is approaching. There is no similar product available on the market and it combats the aesthetic issues with other cyclone shutters that concern some customers.
- Plywood coverings are sheets of plywood that can be purchased from most hardware and timber stores. These can also be installed to cover windows prior to a storm or cyclone and help reduce the likelihood of damaged windows leading to wind and water ingress.



WINDOW PROTECTION

2. CASEMENT WINDOW UPGRADES

- A casement window is one that is attached to its frame by one or more vertical side hinges so that the windows open like doors.



3. KEYED LOCKS OR BOLTS

Keyed locks or bolts come in multiple designs and are usually fitted to the casement with a bolt that locks into the top or bottom of the frame.

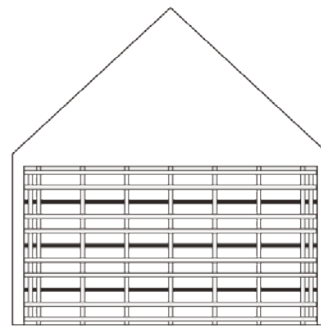
4. CASEMENT OR GLASS UPGRADES

Old casements and hinges can be replaced by builders, carpenters, window specialists and many other trained professionals. Indications that the casements may have been upgraded previously include: casements made from newer looking material than the frame/wall, less faded paint on the casements, drill holes from old hinges in the frame, other signs the casements are newer than the frame/wall. New glass can be installed in casement windows that meets the current building standards.

ROLLER DOORS

1. BRACE OR UPGRADE ROLLER DOORS

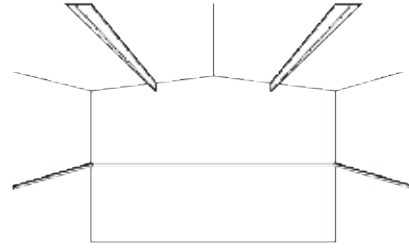
- Protect sheds from cyclones with additional bracing, stronger joints and construction from thicker sheeting.



SHEDS

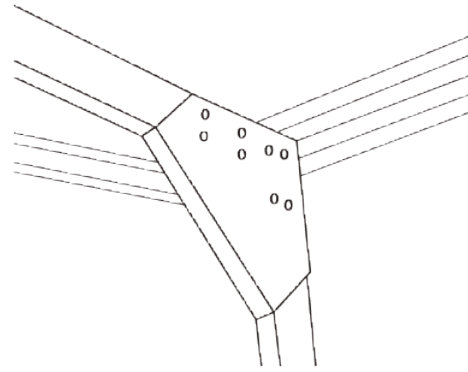
1. SHED ANCHORING

- When determining if a shed is anchored to a concrete slab, first confirm that a slab has been laid. Then check to make sure that either the corner posts have been set into the slab, or that the join brackets in the bottom corners of the shed are bolted to the slab, usually with anchor bolts (u-bolts, sleeve or dyna bolts).



2. SHED CYCLONE PROTECTION

- There are a range of companies that produce sheds that are built to higher specifications based on different wind ratings. They have additional bracing, stronger joins, and are built of thicker sheeting. These sheds sometimes have company stickers or branding on them specifying the wind rating they are designed for. Contacting the local council for building approval records can help determine if the shed is rated for the appropriate wind region.
- Commercially available aftermarket cyclone kits can be purchased and installed to reinforce a shed to help reduce the risk of it sustaining damage during high winds. These reinforcements can be in the form of stronger joins or additional support beams installed along the roof and walls.



suncorpgroup.com.au




Registered office

Level 28, 266 George Street
Brisbane, Qld Australia 4000
+61 7 3362 1222

Connect

 [suncorpgroup.com.au](https://www.suncorpgroup.com.au)

 [@SuncorpGroup](https://twitter.com/SuncorpGroup)