

25 February 2020

Sarah Danos
Assistant Director
Northern Australia Insurance Inquiry
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

Via email: insurance@acc.gov.au

Dear Ms Danos

ACCC Northern Australia Insurance Inquiry Second Interim Report

Suncorp welcomes the Australian Competition and Consumer Commission's (ACCC's) second interim report (the report) from the Northern Australia Insurance Inquiry.

We agree with the ACCC's key finding that introducing a reinsurance pool or insurance mutual in northern Australia is not currently necessary based on availability grounds. Neither of these options addresses the very significant risk of natural disasters in the region. Furthermore, a government-run pool or mutual would also be a substantial intervention into the home insurance market, and the conditions which have led to intervention in other jurisdictions are not currently present in northern Australia.

Suncorp has always acknowledged that the cost of insurance in northern Australia is high. However, unless we change the underlying risks that drive these high prices, any other approach to reduce premiums will only be a band-aid solution.

Insurers, government and individual homeowners all have a role to play in lowering the risk. We have advocated for many years that the only sustainable way to reduce insurance premiums in northern Australia is for all stakeholders to work together reduce the risk of natural hazards. This will require greater investment in public and private mitigation against disaster impacts. It also means making changes to building codes and planning schemes so the north can be developed appropriately, ensuring communities are not put in harm's way.

We are pleased the ACCC is focussing on building standards and planning approaches this year. Suncorp looks forward to contributing to these investigations and have included some initial commentary on these in the Appendix. Suncorp would like to take this opportunity to comment on some of the findings contained in the report as they relate to our business or have been reported on following the release of the report.

Cyclone Resilience Benefit

Suncorp is concerned the ACCC's commentary around the premium reductions achieved through our Cyclone Resilience Benefit (CRB) on page 63 of the report misrepresents the size of the discounts we are providing for customers who have carried out structural improvements to their homes.

Our CRB has been designed to reward both customer behaviour as well as investment in structural improvements which strengthen homes against cyclones. Customers who report that they only carry out cyclone preparation activities around the home (such as trimming trees) and/or minor non-structural improvements

qualify for the lower levels of the CRB and as a result receive only a small premium reduction. In order to qualify for the highest levels of the CRB, a customer's house must be built before 1980, have an upgraded roof and potentially upgrades to building openings such as windows and doors.

Currently 18% of the more than 40,000 Suncorp customers who receive the CRB have reported these structural upgrades and are receiving an average reduction of \$315 – which represents 13% of the average home insurance premium.¹ We believe this is the most appropriate representation of the savings which are being delivered to Suncorp customers who have improved the resilience of their homes, and should be used when comparing against reductions delivered through RACQ's Cyclone Mitigation Discount (which only considers structural changes).

Non-insurance in northern Australia

Suncorp notes the finding in the report that the estimated rate of home building non-insurance in northern Australia to be around 20%, according to a Census-based calculation. Across our portfolio of brands, we continue to see strong renewal rates in northern Australia - which generally exceed renewal rates for the rest of the country. While our experience with renewal rates doesn't align with such a high number of non-insured homes, the Insurance Council of Australia (ICA) is in the process of analysing policy-in-force data recently collected from all insurers. The aim of this analysis is to provide a precise industry-wide view of non-insurance in particular locations in the north.

If you wish to discuss any of the points raised in this response in more detail, please contact Joshua Cooney, Executive Manager Government, Industry and Public Policy on 0477 391 260 or at joshua.cooney@suncorp.com.au.

Your sincerely



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¹ Internal analysis of Suncorp Cyclone Resilience Benefit premium reductions, November 2019

Appendix: 2020 focus areas

Suncorp will continue to assist the ACCC with the Northern Australia Insurance Inquiry throughout 2020 and provides the following initial responses to assist with this year's identified focus areas.

Focus area 6: Examining the impact of building specifications on premium pricing

Suncorp looks forward to assisting the ACCC understand how building construction characteristics and specifications are captured in our current pricing approaches.

Previous research carried out for Suncorp in relation to cyclone resilience has already identified the key drivers of damage from wind and wind-driven rain during cyclones, and appropriate upgrades to strengthen homes accordingly. These upgrades have been incorporated into our pricing engine for our Suncorp Insurance brand via the CRB. Our research also highlights limitations with current Building Codes especially in relation to performance standards for doors and windows compared to structural elements such as walls and the roof. There can be a significant gap between the performance standard mandated for these elements, and the real-life conditions experienced during a cyclone. Other commissioned research involving modern housing indicates evidence of non-compliance against current standards.

Focus area 7: How insurance affordability and availability is affected by land use planning

Since 2012, Suncorp has seen an improvement in how information on natural hazard risks is shared between government and insurers, although unfortunately this is not universal. As an example, the provision of updated flood maps from councils in Queensland has allowed this information to be incorporated into insurer pricing models. Suncorp has also directly assisted several councils with business cases for mitigation projects (ie flood levees in Roma and Rockhampton) by providing them with indicative insurance premium reductions which could be achieved.

While planning decisions ultimately rest with local and state governments – we believe there is an opportunity for insights from the insurance industry on natural hazard risks and potential resilience measures to be considered as part of approval processes for future developments. Suncorp often observes the consequences of poor planning decisions following natural disasters, and would be happy to share examples of these with the ACCC. As an example of a practical consideration – dwellings in new developments could be required to have a floor height which is above the 1 in 100-year flood limit. This would ensure that the risk of damage being incurred in a flood is reduced, and information on floor limits could be used by insurers to more accurately set technical premiums.

Focus area eight: Customers experiencing payment difficulties

As noted in the report, Suncorp offers a fortnightly payment option for customers of our Essentials by AAI brand, which allows Essentials customers to pay their premiums via Centrepay.

There are several reasons why Suncorp has not extended a fortnightly payment option to our other brands including:

- Operational processes for debit failures often mean that by the time the customer is notified of the debit failure, the next debit is being taken out. This can result in insufficient funds being available for the subsequent debit and on occasion, multiple bank fees being charged.
- Customer retention is likely to be impacted by introducing this payment method. This is a result of increased debit failures and customer experience issues related with increased debit failure fees for non-Centrelink deductions.
- The cost of building and extending a fortnightly payment option for our other brands is prohibitive.

Suncorp also has insights from the introduction of fortnightly payments options for our New Zealand general insurance customers and would be happy to discuss these with the ACCC directly.