



Submission to

**Northern Australia Insurance Inquiry, Australian
Competition & Consumer Commission**

**Townsville City Council
May 2019**

1. Introduction

Covering more than 40 percent of Australia's land mass, Northern Australia contains an estimated 17 million hectares of arable soil, 90 per cent of Australia's gas reserves, over 70 per cent of known iron ore, lead and zinc resources and more than 35 percent of our nation's coal reserves¹. These resources produce more than half of Australia's sea exports, contributing significantly to Australia's national accounts and government revenue. This is achieved by less than 5 percent of the population who contribute far more to the nation's prosperity than the average Australian.

Over more than 150 years, Townsville has grown from a small private port to the largest city in Northern Australia. The city survived depressions, recessions, natural disasters, droughts and World Wars. It has grown to be home to our nation's largest defence garrison, metal refineries, universities, the largest tertiary hospital outside of a capital city and 200,000 of our nation's most resourceful and resilient people.

The lack of northern development is an indictment on successive state and federal governments. Due to the tyranny of distance, isolation and scale, many business and household living costs are higher than they should be, and much higher relative to the rest of Australia. This raises serious questions on the levels of inequality and economic disadvantage experienced by the people of the north. Council calls on both the State and Federal Governments to take a more committed approach to developing the north with a focus on regional equality, economic and placemaking infrastructure investment, including investment in natural disaster mitigation measures.

The effects of high prices are no more evident than in the cost of insurance in northern Australia. For Townsville North Queensland, the average home and content premium, excluding GST and State levied Stamp Duties, is almost double the average reported for the rest of Australia. As a result of high premiums, Townsville North Queensland residents and businesses pay, on average, double the taxation on insurance premiums compared to the average Australian household. This financial burden is a depressant on our city economy, reducing discretionary expenditure vital to local business. It is an inequitable fiscal burden levied by governments meant to provide a fair go by ensuring all pay their fair share.

Within our submission to the Productivity Commission Inquiry into Remote Area Tax Concessions, Council highlighted the impost and burden of high insurance costs and called, in lieu of a more direct mechanism, for an upgrade of the Zonal Tax Offset to compensate. It is clear from the work of this Inquiry that such upgrade should be appropriately valued to at least alleviate the inequitable burden of additional household insurance costs estimated to be in the vicinity \$1,000.00 per premium. Council also calls for immediate State and Federal reforms to GST and Stamp Duty levied on the sum insured rather than the premium paid.

Between 25 January 2019 and 14 February 2019, Townsville experienced an unprecedented monsoonal event resulting in major flooding. This flooding inundated an estimated 3,200 residences and 250 businesses². The Queensland Government estimates the economic impact of the event to be in the vicinity of \$2.1 billion. As at 10 May 2019, the insurance industry had processed 29,089 claims resulting from the event, worth approximately \$1.225 billion. Council is working on behalf of the community to coordinate the recovery for this event. This includes liaising and working with insurers, claimants and the Insurance Council of Australia on the insurance industries response to the disaster.

¹ Northern Australia / Emerging opportunities in an advanced economy (Austrade 2015)

² The TCC small business exposure tool uses data from the Department of Employment, Small Business & Training's disaster survey - North QLD Monsoon Floods 2019 Business Survey, data from the Queensland Fire and Emergency Services and data from the Australian Business Register

Considering the region's experience, Council supports the ACCC's key focus on undertaking *detailed case studies on sub-regions in northern Australia*. Council is keen to offer the city's recent and historical disaster experience as a source of further information and study. The city's monsoon recovery efforts have invested heavily in working with insurance providers and providing the best claims experience for residents and businesses alike. Considerable modelling, anecdotal and analytical data has been collated. Closer study has the potential to bear insights on premium pricing response; policy design; information disclosure; claims management; and how governments, insurers and the community can work together to improve damage mitigation and reduce prices. This approach has the express support of the Insurance Council and its members impacted by the event.

Governments' create the economic and social environment needed for communities to thrive and prosper. This is best achieved through prudent policy, targeted services, the right infrastructure to keep things moving, objective regulation at minimal cost, a workforce with the right skills, and research necessary to identify impediments and pursue opportunities. This Inquiry has the potential to support many of these elements and Council welcomes the opportunity to work with the ACCC, on behalf of the Townsville North Queensland community, to realise this potential.

My Council is broadly supportive of the approach adopted and the recommendations made by this Inquiry. Our submission below provides advice by exception where Council believes that comment can contribute. We are happy to expand on these comments where necessary.

Sincerely,



Jenny Hill
Mayor of Townsville.

2. Response to Selected Key Recommendations

Recommendation 1: Abolish stamp duty on home, contents and strata insurance products

State governments continue to generate significant revenue from the imposition of stamp duties on insurance products. Levied on the GST inclusive sum, these stamp duties are a quotient of the higher premiums paid by residents of Northern Australia. The increased state revenue generated by them, in turn, generates increased financial burdens for the people of Townsville and North Queensland. Council urges the Queensland government to review the application stamp duties on insurance, or, at the very least, to re-base and set aside this revenue for mitigation works and financial support during risk events as outlined below in Recommendation 2.

Recommendation 2: Re-base stamp duty, use stamp duty revenue for affordability and mitigation

More support must be given to mitigation work, both at a household and public level, that can reduce damage risk and thereby minimise insurance premiums. On this, Townsville City Council notes that under the current Disaster Relief Funding Arrangements (DRFA), no assistance is provided for improved mitigation. Local governments can seek funding for counter disaster operations, emergency works and the reconstruction of public assets, but not for analysing and implementing improved or new mitigation works and infrastructure that would reduce damage losses into the future. Placing improved resilience at the centre of disaster funding will also stimulate greater cooperation between governments, the community and insurance providers to implement agreed mitigation measures that reduce insurance risks and premiums.

Insofar as stamp duty revenue can be used to support greater affordability, council recommends investigating the scope for state governments to provide assistance for residents. Pricing subsidies are currently provided for other essential services in regional Queensland, such as the Community Service Obligation for electricity, which ensures that regional consumers pay commensurably the same as their metropolitan counterparts. Similar obligations could also be introduced for regional insurance customers. Investigating these options would be of relevance to the Commission's future Focus Area (5) on understanding non-insurance and how it may be addressed.

Recommendation 4: Standardise definitions of prescribed events

Townsville City Council supports as a priority further action to implement this recommendation. Insurance holders remain unnecessarily confused by the conditions of their policy. While many insurance providers have acted promptly to finalise claims in response to this year's monsoon disaster in Townsville, several policy holders have faced obfuscation and legal parsing over the definition and recognition of flood caused damage. This includes both homeowners, body corporates and small businesses which have limited financial and legal resources to ameliorate disagreements with insurance providers. The complexity of definitions has increased the stress of recovery for many in the Townsville community and delayed the process of reconstruction.

Recommendation 5: Review and mandate standard cover

In accord with the observations made above, clearer regulation of standard cover would significantly improve protection for homeowners and businesses and provide greater assurance of claim recognition in the face of disaster related damages. Particularly relevant are mandated inclusions for business property insurance. Survey analysis of Townsville's monsoon event reveals that, despite an average damage bill of \$97,000, only about 14 % of impacted businesses were fully insured and only 17% had flood cover in their insurance policy. Consideration should be given to mandated standard cover for businesses and body corporates that incorporates flood cover as an 'opt-out' inclusion – as per residential cover – rather than an 'opt-in' inclusion that is presently the case.

Recommendation 12: Better information for consumers lodging a claim

Progress on this recommendation is critical to improving outcomes for consumers in North Queensland. As evidenced in Townsville's recent monsoon disaster, policy holders must often manage several agents to resolve their claim. Misleading information on rebuilding options, and their impact upon a claim, has sometimes been provided by contracted panel builders rather than insurers themselves. Policy holders are often unaware of available claims management options and avenues to question and make formal complaints about claims advice and processing. Council has worked to bring together building industry organisations and insurance providers to establish agreed standards and expectations for claims processing and rebuilding works across the city. A series of forums and roundtables continue to be held to share information and concerns. They bring together council, insurers, their panel providers, the Insurance Council of Australia, and local representatives of the Chamber of Commerce, Housing Industry Association, Master Builders Queensland and the Property Council of Australia. It is recommended that this become a standard procedure for declared disaster recovery.

Recommendation 14: Public mitigation works and expected premium reductions

There is great scope for information sharing and joint mitigation analysis between governments and insurers. As part of its monsoon disaster response, Townsville City Council has worked closely with insurers, local industry stakeholders and government agencies to expedite claims processing, reopen businesses and drive reconstruction. It would be highly beneficial to use these partnership arrangements as a model for improving damage mitigation into the future. In the case of recent monsoon damage, insurers have property specific information (where insured) about the type of flooding, extent of flooding, cost of damage, and the actions and time taken to settle insurance claims. This information would add significant value to the city's flood recovery and resilience planning.

As noted previously, allocations should also be directed to improved mitigation works under the Federal Government's Disaster Recovery Funding Arrangements.

Recommendation 15: Building code changes to better protect interiors and contents.

Townsville City Council supports a review of and improvement to building codes and building form that can reduce home and building damage during risk events. This review should be based on leading scientific research into resilient building design within northern and tropical climates. Institutions like James Cook University, which have supported decades long research through the Cyclone Testing Station, remain key resources for reforming building codes and design.

Focus Area 2: Detailed Case Studies on sub-regions in northern Australia.

Townsville City Council notes that a key focus of future Commission research is the undertaking of *detailed case studies on sub-regions in northern Australia*. These case studies would look at such factors as affordability, claims experience and levels of non-insurance. Council is keen to offer the city's recent and historical disaster experience as a source of further information and study. As referenced in the introduction above, the city's monsoon recovery efforts have invested heavily in working with insurers and providing the best claims experience for residents. Considerable modelling, anecdotal and analytical data has been collated. Closer study has the potential to bear insights on: policy design; information disclosure; claims management; and how governments and industry can work together to improve damage mitigation and reduce prices.

3. Conclusion

Insurance is an essential service. The issue of making it equitably available to all Australians highlights the challenges for government in policy development and implementation. Townsville City Council applauds the efforts of the ACCC in examining the supply of insurance services to residential buildings, contents and strata insurances products to consumers in northern Australia and the recommendations made.

With our links to the north's natural wealth and beauty, and proximity to the increasingly prosperous Indo-Pacific, no region is better placed to take advantage of Australia's resources and global opportunities than Townsville North Queensland. Our ability to realise these opportunities is significantly impeded however by higher household and business costs. This is clear in the case of insurance. We call on government and the insurance industry to now implement the necessary market, regulatory and taxation reforms and measures required. We also implore State and Federal Governments to work with local authorities in investing in disaster mitigation measures.

Following the recent unprecedented monsoonal event, the Townsville is in a unique position to showcase the response of the insurance industry to major natural disasters. As outlined, Council is willing to partner with the ACCC, the insurance industry and our state and federal counterparts in conducting further research and acting as a detailed case study on affordability, claims management experience, levels of non-insurance and how governments and industry can work together to improve damage mitigation and reduce prices. Council's contact for this purpose is:

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