

The High Cost of Home and Strata Title Insurance

in

North Queensland

I am making this submission as an individual but as one who has spent many years in the general insurance industry both within Australia and overseas; I am also a resident of Far North Queensland and bring both an industry and regional perspective to this problem.

What needs to be understood at the outset is that the spiralling costs of property insurance in North Queensland are not confined to strata title or home insurance; the problem extends to industry and business insurance also.

The central theme of this submission is that the escalating cost of catastrophe reinsurance and the segregation and quarantining of the Australian continent by reinsurers has created artificial and unwarranted insurance 'no-go' zones which are contrary to our national interest and in particular the Northern Development commitment of the government.

I will firstly address the discussion points listed in the discussion paper and then endeavour to identify the real source of the problem that has arisen in North Queensland concerning the cost and availability of Home and Strata Insurance.

Comparison Websites

As you will be aware, there are a number of 'insurance comparison' websites operating currently within Australia but confining themselves essentially to Health & Life Insurance and to a lesser extent Motor Vehicle Insurance.

The purpose of these comparison sites is to provide consumer guidance as to the availability, quality and cost of the service under consideration. For comparison to be an effective and useful service to a consumer there needs to be a variety of comparable and competitive products offered by a range of independent providers that can be evaluated and effectively compared.

Aggregators are privately operated businesses relying for their income on commissions paid by the suppliers or providers they include in their comparison survey: i.e. if their comparison recommends insurance company 'A' and the consumer accepts that recommendation and transacts business with that company then company 'A' pays the aggregator a commission, normally a percentage of the premium paid – in the 5% to 15% range but occasionally as high as 30%.

The initial problem is that not all providers (insurance companies) agree to have their products included in the comparison process and it is frequently the bigger players who opt out as they have their own distribution channels. Accordingly, as with Private Health Insurance, the comparison is only of those paying commission to the aggregator and in practice this tends to be the smaller, fringe operators. By way of illustration, the aggregator *iSelect* does not include the major health insurance providers, BUPA and Medibank Private, for the reasons mentioned : there is no true market comparison.

In North Queensland at the present time there are two significant insurance groups offering, on a selective basis, domestic Home & Contents insurance coverage: Insurance Australia Group (IAG) and Suncorp and their wholly owned brands.

There are several other players who are also active in the market but on very much a niche and selective basis driven by 'corporate' connections and very much postcode driven. In other words they are not looking for insurance business in the North Queensland region and treat it as 'accommodation' only.

In my view there are insufficient insurance market players actively seeking and competing for business in North Queensland to make a comparison website viable or useful.

Engineering Assessments of Strata Title properties

I have no expertise in the field of engineering assessments however, from an insurance underwriting and acceptance perspective I have not been aware that this has any real influence with the escalation of insurance premium costs in North Queensland.

Presumably engineering assessments will assist in ensuring that prevailing building codes have been adhered to and perhaps a review of buildings codes needs to be considered but, personally, I have not seen any calls for such a review from the Insurance Council of Australia (ICA).

The problem in North Queensland, in my view, is essentially related to the reaction or over-reaction of reinsurance companies to climate change and the frequency and intensity of weather events in recent years.

Encouraging Foreign Insurers

Insurance is a global business and increasingly so as digital communications facilitate the spread of risk throughout global communities. Most global insurers already participate in Australian risk exposures through the mechanism of reinsurance, a very effective tool for spreading and sharing risk.

As I see it, it is not so much a need for new capacity by way of foreign insurers establishing operations within Australia but a need for the existing insurance industry already servicing the Australian populace to do so in a more effective manner.

Rationalisation within financial markets in the last fifteen year has seen the merging and integration of insurance underwriting capacity into larger and larger corporate entities although, confusingly in Australia, they maintain legacy trading names and brands, giving the impression of a diverse marketplace whereas there are really only a couple of corporate entities active in the market.

This rationalisation has been driven partly by the need for efficiencies but also a recognition of changing risk profiles including, but not limited to, the advent of global terrorism and climate variability ; the former triggered an immediate industry knee-jerk reaction, as they retreated from

the market and this, of necessity, was recognised by the Australian government by way of the *Australian Reinsurance Pool Corporation (ARPC)* when private insurance capacity dried up. But climate variability has yet to be recognised and addressed by government even as insurance capacity is in retreat.

To understand the phenomena that has taken place in North Queensland we really need go no further than the availability of catastrophe risks reinsurance on global markets. All direct insurers 'lay-off' catastrophe risk into reinsurance treaties and reinsurers price their treaty protection on arbitrary regional risk profiles. Accordingly, in the Australian context the major reinsurers look at anything north of the 26th. parallel as being, in the tropical high risk zone, thus attracting punitive reinsurance premium penalties. Direct insurers are thus influenced and encouraged to avoid or minimise underwriting business in the tropical high risk zone.

Reinsurers are convinced that climate change will lead to increased severe weather activity in the tropical zones and this, fundamentally, is why the direct insurance companies have been retreating south to areas where there are greater population concentrations, more manageable risk exposures and a better prospect of making a profit.

If reinsurers refuse to address the problem that they are creating then the prospect of catastrophe risks being taken up by the *ARPC* may be necessary to encourage them to sharpen up their underwriting policies and pricing practices.

Finally, on this point, of encouraging foreign insurers to enter the Australian market. I have, in the past week, been trying to get Home insurance quotes online without, it has to be said, much success. However, included in the direct insurers I approached, were Allianz Australia Insurance Ltd (ranked as number one globally in 2013) and Zurich Australian Insurance Ltd (number 19 global ranking). These insurers based in Germany and Switzerland respectively both have "geo-blocks" on their quotation websites when it comes to Home Insurance quotes in my postcode, 4884 (an area of the Atherton Tablelands generally considered benign when it comes to weather related activity and historically flood free). Their selective approach is quite unacceptable and they should be required to offer insurance cover without geographic selectivity..

The previous government enquiry into strata title insurance made the following recommendation :

Recommendation 4

3.137 The Committee recommends that the Australian Government investigate the feasibility of requiring insurance companies which provide types of mandated insurance (such as residential strata title) to offer this type of cover to all regions of Australia as part of their permit to operate in Australia.

The same considerations equally apply to Home & Contents insurance in North Queensland and it could be added that such a requirement include 'consistent pricing'. This is still worthy of consideration.

Concluding Remarks

The problem being confronted in the Tropical Zone of North Queensland is one of insurance availability and lack of real competition between the few remaining players. Interestingly, the same problem has not arisen to the same extent in the Northern Territory. If cyclone exposure is considered a driver in insurance premiums you would expect to see the same problem in Darwin , but this is not evidently the case. It may be due to the fact that the NT government has retained a government controlled Insurance office – *Territory Insurance Office (TIO)* providing competition with the private industry – by contrast the Australian states have all privatised their government insurance offices.

Inevitably, insurance is constitutionally a federal concern beyond state operated insurance offices. As the old SGIO (Qld) is now a privatised entity under the Suncorp banner there seems to be little interest or involvement in this insurance availability problem from the Queensland government. Indeed, not content with the increased general insurance stamp duty revenue generated by the increase in premiums in recent years (policy stamp duties are taxed as a percentage of premiums) the Queensland Government last August increased the stamp duty on property insurance (including homes and strata title) from 7.5% of the premium to 9% with GST levied on top.

This is a regrettable move by the Queensland government at a time when insurance affordability is placing the community under price pressure.

Greater engagement by the Queensland government is absolutely essential, initially in reversing the punitive increase in stamp duty and ultimately in contributing to a solution to this problem.

As an overriding recommendation, I believe that it is essential that the federal government bring together all players for frank and constructive discussion to overcome this problem which market forces alone evidently cannot resolve : this includes in particular the participation of representatives of the reinsurance industry: direct insurers: major insurance brokers.

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