



ADDRESSING THE HIGH COST OF HOME AND
STRATA TITLE INSURANCE IN
NORTH QUEENSLAND

SUBMISSION FROM THE
NATIONAL INSURANCE BROKERS ASSOCIATION OF AUSTRALIA

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INTRODUCTION

NIBA welcomes the opportunity to provide comments on the Treasury Discussion Paper “Addressing the high cost of home and strata title insurance in North Queensland”.

Overall, NIBA considers that property insurance in North Queensland is an extremely difficult market at the present time, with limited supply and high pricing.

The area has sustained significant damage and losses resulting from cyclones and storms over the past 5 years. A substantial number of properties do not meet current building standards, particularly those designed to help the buildings withstand the impact of high winds.

The combination of weather events and the nature of the built environment has led to significant insured losses in recent years. Insurers and reinsurers are concerned about their ongoing exposure to further substantial claims costs from the region.

In these circumstances, NIBA believes it is important to carefully understand the nature of the concerns, and to develop strategies to provide the property owners with advice and assistance to ensure they are taking all available steps to manage and mitigate their risks of property damage, and that they have access to the insurance markets that are currently available.

THE HIGH COST OF INSURANCE IN NORTH QUEENSLAND

Focus Question 1: The Government has committed to identifying (in dollar terms) measures that offset the cost imposed to business of any new regulation. What suggestions do you have for how the regulatory compliance burden of any options in this discussion paper can be reduced?

NIBA welcomes the Government’s commitment to identify the full costs of any proposed regulation. Information on the potential cost impact will be provided where it is readily available, however further information is likely to be needed to be able to assess the likely impact of any initiatives that are developed following responses to the Discussion Paper.

Focus Question 2: Is home and/or strata title insurance in North Queensland unaffordable, having regard to the price compared to the risks insured?

Anecdotal information available to NIBA suggests that many property owners in North Queensland are having extreme difficulty meeting the cost of property insurance. This includes owners of both detached (or similar) residences and owners of strata title properties.

Whether the insurance cover is unaffordable, leaving property owners seriously exposed by being uninsured, would be a judgment made by individual property owners on a case by case basis.

Focus Question 3: What impact is the high cost of insurance in North Queensland having on the local economy?

NIBA does not hold sufficient data to be able to comment in an informed manner on the impact of the cost of insurance on the local economy in North Queensland.

COMPETITION IN NORTH QUEENSLAND INSURANCE MARKETS

Focus Question 4: Is there a lack of competition or contestability in the North Queensland property markets? Is this driving higher prices?

Comments by NIBA Members suggest that the key issue for the North Queensland property insurance market is the very limited supply of cover available to property owners in North Queensland. Only a small number of insurance underwriters are providing cover in that market.

NIBA believes the high cost of insurance is driven by underwriter projections of the cost of providing cover in the area, rather than being a result of any lack of competition or contestability. There are regular examples (in Australia and in the international insurance markets) of insurers entering markets where premiums are thought to be unduly high, in order to gain access to those premiums. NIBA understands this is not occurring in North Queensland.

Focus Question 5: To what extent is the level of competition or contestability in North Queensland insurance markets affected by uncertainty around the level of risk in the region?

Insurers and reinsurers have the freedom and responsibility to determine what they believe is an appropriate premium for the nature and level of risk they underwrite.

The cost of risk is determined by the expected frequency of the event being insured, the likely cost of claims if the event does occur, and the number of policies that will need to be written to generate an insurance pool sufficient to cover the total potential cost of cover being written.

Insurers are also concerned about concentration of risk. They normally try to manage their exposure to risks by limiting exposure in narrowly defined areas. In this way, the insurance company is less likely to be significantly affected by a single or small number of events in a single geographic area.

Recent history of weather and related events in North Queensland shows that the frequency of severe events can be regular, and that the insured cost of the event can vary from relatively low to very high. Sophisticated models are available to insurers and reinsurers to assist them assess the likely level of risk they may face by providing cover in the area, and the likely level of pricing that would be needed to prudently insure those risks.

Another key concern of insurers is the relatively small number of policies compared to the potentially high cost of insured losses when severe weather events do occur.

Hence, there is some degree of uncertainty as to whether serious weather events will occur every one, two or five years, but the long history of the region is that severe weather events can be expected, and recent experience is that they can be very costly when they do occur.

ADDRESSING THE HIGH COST OF INSURANCE IN NORTH QUEENSLAND

Development of an insurance website/aggregator

Focus Question 6: Do existing insurance comparison websites in Australia adequately enable consumers to compare the features of products offered by multiple insurers?

NIBA firmly believes that existing comparison websites do not enable consumers to adequately compare the features of products offered in the Australian general insurance market.

Property insurance policies vary widely in their terms and conditions, and only the most sophisticated insurance databases (such as the reference maintained by the LMI Group¹) adequately monitor the policies available in the market place.

Because of this complexity, comparison websites often only provide very limited information, which can therefore be very misleading for those who view or use the site. ASIC has expressed strong concern on a number of occasions regarding the nature and content of comparison sites that have been available in Australia in recent years.

The use of comparison websites is further complicated by the recent experience of NIBA Members in North Queensland, who have found that the availability and cost of insurance cover for specific properties and risks can alter day by day. With a market that is operating in this manner at the present time, any form of comparison web site would be likely to be inaccurate and misleading.

Focus Question 7: What characteristics should an insurance comparison site have to make it useful for consumers?

NIBA firmly believes that in a difficult insurance market situation, such as the one that currently exists in North Queensland, property owners and consumers need access to very careful support and advice from an experienced, qualified, licensed insurance adviser – an insurance broker.

¹ See: <http://www.policycomparison.com/>

There are too few providers, the underwriting terms and conditions are regularly changing, and the cost of cover is also regularly changing. This is not the environment to give property owners some perception of clear information from a stable market – that is not the situation at the present time.

Further, a comparison does not provide the very first consideration that is vital in all insurance processes: what is the nature of the risk (are there any special features of the property that need to be taken into account), what type of insurance policies are needed to cover that risk, has the risk been sufficiently managed and mitigated, is there anything that can be come to reduce the level of risk (and hence the level of loss if an insured event occurs). All these questions are critical in a difficult market situation. None of these issues can be adequately addressed by a comparison web site. All these questions are likely to require expert advice and assistance to the property owner.

Focus Question 8: If insurers were required to provide information to enable simple price and features comparison for insurance products, what would be the compliance costs to business?

NIBA believes it is appropriate for insurers to respond to this question.

Focus Questions 9 to 18

As noted above, -

- The North Queensland insurance market is a very difficult market at the current time, with very few insurers providing cover, difficult and varying terms and conditions, widely varying risks, and constant changes in the cost of cover.
- Comparison web sites can only ever provide basic information to the consumer. Any comparison web site for property insurance in North Queensland would either be too simplistic to be of any real use, or if fully comprehensive – would be virtually unintelligible for most consumers and property owners.

Rather than giving further consideration to the development of some form of web site, NIBA firmly believes the Government should be encouraging property owners to seek professional advice from a competent, trained, experienced insurance broker in relation to –

1. The nature of their property, the nature of their risks, whether those risks can be managed or mitigated;
2. The nature, terms and conditions of insurance policies that are available in the market at the current time, including insurance policies that would be suitable for the client’s own risks and circumstances; and
3. The best value cover currently available in the insurance market for their particular risks and circumstances.

Focus Questions 19 – 21

Property insurance for strata title properties is usually taken out by the body corporate (sometimes known as an owners' corporation). Individual lot owners are responsible for insuring the contents of their property.

In addition, the body corporate may have other risks it needs to consider in addition to property insurance: public liability, workers compensation, risks that are specific to the particular property.

In these circumstances, NIBA firmly believes it is even more important and desirable that the body corporate have access to and utilises the services of an experienced insurance broker, who would assist them assess, understand and manage their risks, and access the insurance market on their behalf.

NIBA does not believe the risks and circumstances facing body corporates could be adequately described on a comparison web site. In any event, the site would have to recommend the body corporate management committee strongly consider obtaining professional and expert advice on their risk and insurance needs.

Focus Question 22: What are the implications of providing any aggregator for home and contents, and potentially strata title insurance;

1.1. *nationally; or*

1.2. *only for North Queensland or other regions acutely affected by affordability problems?*

NIBA is concerned that the provision of an insurance aggregator site by the Government would give relatively uninformed consumers the impression that property risks are largely homogenous, and that insurance policies being offered in relation to these risks are largely quite similar, so that the only outstanding issue is the cost of the insurance. None of these propositions are correct.

In the circumstances, NIBA strongly recommends the Government defer consideration of an insurance comparison or aggregator site, for North Queensland and for any other part of Australia.

Focus Question 23: If an insurance comparison website is to be facilitated by government, should it be attached to ASIC or ACCC, another agency, or under contract with a private operator? Would there be any difference in the cost of compliance for business in each of these cases?

NIBA strongly recommends the Government give very careful consideration to the legal responsibility for misleading or incorrect information on any comparison or aggregator site that might be established. There is a very real risk that people will form opinions and conclusions that are not correct. In these circumstances, legal liability must be clearly established, so that adequate remedies are available to those who suffer loss because of the operation of the site.

Promoting Resilience

Focus Question 24: What, if any, is the role for government/s in promoting resilience in North Queensland?

NIBA believes there are important roles for government in managing and mitigating risk in North Queensland, and in promoting resilience in the community. These roles are relevant to the Federal, State and local governments in the area.

Important work has been undertaken in relation to building standards, and NIBA Members have reported that buildings constructed under current building standards are suffering much less damage than buildings that do not comply with current standards.

Care also needs to be taken in relation to land use planning and controls. The potential for damage by wind, storm and tidal surge is very real in North Queensland, and while there are strong desires by many to have water views, these can often be accompanied by exposure to weather related damage.

NIBA strongly welcomes the Federal Government's announcement in the recent Budget of funding of \$12.5 million over three years to facilitate engineering assessments of strata title properties in North Queensland. Assessments of this nature will often assist in the body corporate understanding the risks faced by the property, and if fully managed and mitigated, a better insurance outcome should be available. The assessments will also identify remedial work that might or should be undertaken to improve the resilience of the building, and hence reduce the size of any loss that is likely to occur in the event of severe weather activity.

NIBA also looks forward to the work being undertaken by the Productivity Commission, which is currently inquiring into the efficacy of natural disaster funding arrangements.

Focus Question 25: Are there other options for enhancing resilience that should be considered?

NIBA Members have reported that because of the large number of retirees living in North Queensland, there can often be limited capacity to fund improvements to buildings to make them more resilient to extreme weather events.

NIBA respectfully suggests the Government might wish to consider providing limited financial support, on a strictly means tested basis, to assist property owners with limited means to improve the resilience of their property.

Focus Questions 26 – 28

The Discussion Paper correctly notes that laws and regulations currently acknowledge and permit the placing of insurance business with an unauthorised foreign insurer in a number of circumstances, including where the price offered by Australian insurers is substantially less favourable.

NIBA Members have expressed concern that in recent years, the property insurance market in North Queensland has been made more difficult by insurers entering the market with lower premiums, developing books of business, and then exiting the market after realising that they had not priced the risk correctly.

Activity of this nature gives rise to unrealistic expectations in the minds of property owners, disrupts the existing market framework (even a difficult market framework), and ultimately leads to confusion, disappointment and distrust in the minds of the community in relation to the operation of the insurance process.

NIBA therefore has strong reservations regarding the suggested relaxation of restrictions on foreign insurers entering the North Queensland insurance market.

It is important to note that the provisions relating to placing of business with unauthorised foreign insurers refers to Australian business being placed overseas.

If an insurance company wishes to operate in the Australian market, they would need to be fully authorised by APRA to do so, and be subject to the Australian prudential regulatory regime. This regulatory regime has provided confidence and security to Australians in times of the global financial crisis and major weather events. NIBA would be concerned with any proposal to relax prudential standards that are currently in place.

It is clear that some insurers are prepared to offer cover in North Queensland. NIBA respectfully suggests that the Government pursue discussions, via the Insurance Council of Australia and with individual insurance companies, with a view to increasing the number of insurance companies prepared to provide at least some – even if limited – cover in the North Queensland market.

NIBA believes there are very real risks associated with relaxing restrictions on unauthorised foreign insurers. In addition to the disruption of markets noted above, there can be very real issues regarding the capital strength and solvency of unauthorised foreign insurers, their capacity to service the market – particularly in relation to the assessment, management and payment of claims, and their overall preparedness to operate in a professional and timely manner.

WHAT ELSE CAN OR SHOULD BE DONE

NIBA respectfully presents the following suggestions for further consideration by the Government.

Firstly, it may well be timely to have a thorough review of the desirability of allowing and encouraging Australian authorised insurance companies to develop and maintain catastrophe reserves within their asset base. The aim of this process would be to allow insurers to spread the potential cost of irregular but major weather events and other natural disasters over a number of underwriting years, rather than account for their results on an annual basis as at present.

Secondly, in the absence of catastrophe reserves within individual insurance companies, NIBA notes the recommendation of the House of Representatives Standing Committee on Social Policy and Legal Affairs, in March 2012, that the Australian Government investigate the expansion of the Australian Reinsurance Pool Corporation to include cover and protection for residential strata schemes. If the voluntary insurance market is unable to provide the necessary level of cover at what the community regards as reasonable prices, some alternative form of pooling of risk, as occurs in relation to terrorism risk, may be worthy of further consideration.

Finally, and we note this comment is essentially a matter for the Queensland Government, serious consideration should be given to the level of insurance taxes currently being paid by property owners in North Queensland. With insurance premiums that are much higher than those typically charged in south east Queensland, insurance taxes – both GST and stamp duty – are also much higher on a per property basis. The burden of insurance taxes simply multiplies the already severe burden being carried by policyholders in North Queensland.

FURTHER CONTACT RE THIS SUBMISSION

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