

COMMENTS ON NORTHERN AUSTRALIA INSURANCE PREMIUM TASKFORCE INTERIM REPORT 2015.

The following are my comments on the Northern Australia Insurance Premiums Taskforce INTERIM REPORT 2015.

INTRODUCTION

Other than Tropical Cyclones (TC's), and the weather associated with TC's when one occurs, the weather in Tropical North Queensland is quite mild in comparison with southern Australia. There are no severe weather frontal systems and storms with gale force winds, many of the same intensity of a Category 2 TC, which are frequently reported damaging houses and property in the southern media. There are no reports of major hail storm damage or major bushfires and flooding is more localised, seasonal, often tidal, and does not result in the same level of property damage as flood events reported in the southern media.

The long term average of TC events in the Coral Sea is 4 events per season of which only one crosses the coast. The population is small and widely distributed so most TC coastal crossings occur in sparsely populated areas hence have minimal property damage impact.

CLAIMS HISTORY IN MY STREET.

I live in XXX St Parramatta Park in Cairns, post code 4870.

I have owned my house since 1993 and have never made an insurance claim. I have spoken with long term residents in Terminus St and none can recall making insurance claims due to tropical cyclones in the last 50 years.

Prior to 1970 the last TC event to significantly impact Cairns was 1927 so a reasonable assumption is there has been no significant TC damage in XXX street over the last 88 years.

My household insurance premiums from the one insurance company increased from \$770 in 2006 to \$4406 in 2014 with the following annual increments.

2006 \$770

2007 \$947

2008 \$1005

2009 \$1092

2010 \$1279

2011 \$1650

2012 \$2051

2013 \$2450

2014 \$4406

INSURANCE PREMIUMS ADVISORY PANEL COMPOSITION

The Advisory Panel composition is dominated by the insurance industry and an industry bias is reflected in the obvious weaknesses in the rationale given for premium increases. Additionally only one member lives in Far North Queensland and is familiar with the local weather conditions and has experience with TC's.

SCIENCE

The science in Appendix E is good and it is noted that in Table 5 Severe Cyclones in Australia 2000 to 2015 no severe TC's made landfall near the major population centres of Cairns and Townsville and the majority of coastal crossings were in low population areas. It is also noted that some research on trends indicates a decrease in numbers of TC's since the 1970's and other research indicates no change. Hence there is no scientific basis to justify premium increases due to an increase in TC events. An additional reference from the Bureau of Meteorology that could be included in the final

report is the long term seasonal average of tropical cyclones in the Coral Sea is 4 events of which 1 is likely to cross the coast.

INSURANCE PREMIUMS.

Reasons given for increased premiums include;

1. A re-evaluation of TC risk by the insurance industry.
2. The cost of claims during the period 2005-06 to 2012-13 exceeded premium receipts.
3. The increased cost of re insurance.

In the re-evaluation of TC risk by the insurance industry the industry states it under estimated the risk of tropical cyclones in the past and now know more about the impact tropical cyclones can have. Additionally a reason why premiums are high in the north is the tropical cyclone risk is higher than in the south. There is no consideration given to the otherwise predominantly fine weather in northern Australia and high number of severe weather events reported in southern Australia.

The report indicates the cost of claims during the period 2005-06 to 2012-13 exceed premium receipts. However the report gives is no historical data prior to this period or any recent data. The very basis of insurance is to pay a third party to take on a risk and one would expect the third party to bear losses when frequent claims are made and to profit when there are few or no claims. A short period when the cost of claims exceeds the premium receipts cannot be used in isolation to justify premium increases. Data for the period 2000 to 2005 and 2014 also needs to be taken into consideration along with previous historical data.

Global events in 2011 led to increased re insurance costs which were passed on to customers in TC risk areas however reinsurance costs peaked in 2011 and have since come down substantially. In my case my premium went up from \$2051 in 2012 to \$2450 in 2013 and \$4406 in 2014. This is inconsistent with the argument that increased reinsurance costs contributed to increased premiums. i.e my premium increased substantially when re insurance costs went down.

A justifiable reason to increase premiums is more frequent TC events however the report confirms there has been no increase in the number of TC events and there are some indications the frequency of events may have decreased since 1970.

With no increase in the risk of TC events the increased risk and premium increases are insurance industry generated based on profitability concerns. Selective reference to the years when the cost of claims exceeded premiums without consideration of the years when premiums exceeded claims is not a fair rationale or valid justification for premium increases. Increased re insurance costs is a valid reason for premium increases however to increase premiums when reinsurance costs are falling is inconsistent.

The reasons for premium increases given by the insurance industry raise some very serious credibility issues so it is not surprising the public, particularly those who have not made a claim, do not and will not accept what the insurance companies say. It's a bit like saying I didn't understand my business in the past, for say the last 20 to 50 years, and now I know more about it I am penalising my customers. Unfortunately household insurance is not a take it or leave it product and people are forced to have household insurance.

WAY FORWARD.

With no increase in Tropical Cyclone activity and the questionable reasons given by the insurance industry for increasing premiums there is good reason to conclude the TC risks have been overestimated.

As the objective is to reduce premiums I recommend the following action be taken collectively by all interested parties.

INSURANCE INDUSTRY.

1. Premiums must be transparent and include the cost to rebuild the house and identify risk components and monetary values to each applicable risk. i.e what is the premium cost of TC risk, what is the premium cost of flood risk, and what is the premium cost of reinsurance?
2. Insurance companies who selectively insure by post code and focus on the more lucrative larger populated southern markets should cease that practice.
3. To simplify TC claims management and reduce large numbers of small claims and hence reduce premiums use of a higher deductible is an acceptable way to achieve this outcome.
4. Pool and outdoor furniture and sail cloth structures should not be covered in TC events.
5. Insurers should assist policy holders with a simple house valuation tool using square meterage and number and type of rooms to determine a cost to rebuild for insurance purposes. Most people have no idea of what it should cost to re build their house hence some houses will be over insured, with policy holders paying more insurance than they should, and some properties will underinsured with insufficient cover to rebuild.
6. Insurance companies need to take into account claims history on a property by property basis when determining premiums.
7. Premiums in Far North Queensland should include a discount factor to reflect the reduced risk of severe weather events that frequently occur in southern Australia and do not occur in the north.

COMMONWEALTH GOVERNMENT.

1. Put in place measures that require insurance companies to give premiums that are transparent and include the cost to rebuild the house and identify risk components and monetary values to each applicable risk. i.e what is the premium cost of TC risk, what is the premium cost of flood risk, and what is the premium cost of reinsurance?
2. Outlaw the practice by some insurance companies of selectively insuring by post code. This may sound harsh but cherry picking of locations disadvantage's companies who do insure in less profitable markets and consequently must impact on premiums which is unfair to policy holders who live in the unpopular post codes.
3. Establish an insurance industry Ombudsman similar to the Telecommunications Ombudsman to "keep the industry honest".
4. Establish an Australia Government Catastrophe Fund to assist funding rebuilding costs should a catastrophe occur. Such a fund should apply Australia wide and cover all catastrophic events.
5. Provide mitigation assistance to owners of older houses to make their houses less prone to TC damage. i.e in particular tie down roofs and bring roofs up to the current building standards.

STATE GOVERNMENTS.

1. State Government should not charge stamp duty on insurance premiums.

LOCAL GOVERNMENT

1. Local government should be given the mandate to require people to keep buildings in good repair and yards clear of rubbish and objects that could become airborne in a TC event and damage other property.

POLICY HOLDERS

1. Policy holders should be responsible for keeping their property in good repair and their yards clear of objects that could become airborne in a TC. TC damage to buildings is caused more by flying objects hitting houses rather than the wind itself. i.e rubbish and objects left in peoples yards become missiles and substandard houses disintegrate, parts of which then hit and damage other houses.

CONCLUSION

If all parties work in a cooperative common sense manner with transparency and fair play a win win outcome should be achievable.

Please feel free to contact me to discuss if you wish.

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