**Federal Budget Submission – Insurance Affordability in Northern Australia**

The Burdekin Shire Council would like to make a submission to the Federal Budget for consideration to be given to the establishment of a government supported reinsurance facility to provide more affordable catastrophe cover options for insurers providing cover to residential, commercial and strata property owners in northern Australia. This is to address affordability issues for property owners in northern Australia in obtaining adequate insurance cover.

The Australian Competition and Consumer Commission (ACCC) has recently completed the *Northern Australia Insurance Inquiry* final report which has conducted extensive investigation and research over the past three (3) years into issues associated with insurance affordability and availability in northern Australia.

The report notes that the cost for home, contents and strata insurance for people living in northern Australia is considerably higher than in other parts of Australia. An example of this noted in the report is that in 2018-19 the average premium for combined home and contents insurance across northern Australia was approx. $2,500, which is almost double the amount for the rest of Australia, which was $1,400.

The report also notes that average home insurance premiums rose in real terms by 178% between 2007-08 and 2018-19 in northern Australia as compared to a 52% increase in the rest of Australia. The main contributing factor to this is the higher risks of natural disasters in northern Australia, principally from cyclones and flooding.

This increase in premiums is having a significant impact on the affordability of insurance for property and business owners, with many having to taking higher levels of deductible to keep their insurance premiums at an affordable level. It is understood that many property owners in northern Australia are also opting out of insurance, with the rate of home building non-insurance being estimated in the ACCC report at around 20% in 2016, compared to 11% for the rest of Australia. These figures are based on 2016 data and it is suspected the figure is now somewhat higher given the challenging economic circumstances being experienced.

This significant level of non-insurance is a real concern as people impacted by natural disaster events will be looking to government to provide them with financial assistance to overcome their losses, principally through natural disaster relief support. It will also prolong the recovery of affected communities from natural disasters due to not have an insurance safety net to cover the property losses.

It is noted that the report does not consider there has been a market failure in terms of the availability of insurers to provide cover in northern Australia, despite this being a relatively small number of insurers, but the real issue is a question around the affordability of insurance cover for property owners.

Based on information provided to the ACCC as part of its research for the report, insurance companies have incurred significant losses in northern Australia (approx. $850 million) due to natural disasters over the past 12 years. This is affecting the cost of their reinsurance arrangements for natural catastrophe cover which it is understood is a significant component of the premium that they charge to property owners.

Access to more affordable reinsurance options for insurers through a government supported facility could make a significant difference to the cost of insurance premiums for property owners in northern Australia. The reinsurance facility would be for natural catastrophe events such as floods and cyclones which are a major risk component in the calculation of premiums for properties in northern Australia at present.

Savings in the cost of reinsurance cover would also reduce the cost of GST and Stamp Duty levied on the premiums paid by property owners. They effectively add an additional 20% to the price of insurance cover and for many residential property owners the GST component is not recoverable.

The establishment of a reinsurance facility may also see the introduction of increased competition in the insurance market in northern Australia, with more insurers entering the market. At present some insurance companies are not participating in this market because of the risks associated with providing coverage.

Broad design features for a reinsurance facility were outlined in a submission made by Allianz Australia Insurance Ltd dated 13 September 2019 to the *Northern Australia Insurance Inquiry*. It is noted that the Federal Government has already established the Australian Reinsurance Pool Corporation (ARPC) which offers terrorism reinsurance to commercial insurers and a similar model may be able to be considered in this instance to mitigate the high cost of insurance for natural catastrophe cover in northern Australia.

The Burdekin Shire Council requests the Federal Government to give consideration in the Federal Budget to the establishment of a reinsurance facility to address the ongoing issue of insurance affordability for property owners in northern Australia. It is felt that the ACCC recommendation for direct subsidies to be considered for people facing acute affordability issues will do little to address the underlying problem, which is a direct result of the natural disaster risks associated with living in northern Australia.

If the Federal Government wishes to see northern Australia develop and prosper then it needs to remove this impediment and implement a solution which will address the insurance affordability issue.