Insurance Forum - Cairns

From: [redacted]
To: Insurance <insurance@accc.gov.au>
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Hi there

Thank you for last nights Forum in Cairns in respect to Insurance in Northern Australia. I am an insurance broker.

While I did talk there, there were a couple of points I would like to make that came out of the meeting.

1) Insurance Industry Failure
During the discussion it was mentioned the the Insurance Industry has failed. This is incorrect and unfair to those that have remained offering insurance to NQ. A failure would be no cover, reduced cover, or a failure to meet customers claims or losses. Perhaps the failure is those that do not offer cover in NQ and choose those safer markets down south. This contributes to higher premiums in the North as those that write business in both hemispheres have to still compete with those that only write in a lower risk area (therefore making NQ pay its own way subsidised by reinsurance, instead of a larger pool arrangement). It would be severely harsh to penalise those companies that have and continue to write business here.

2) Insurance regulation
The industry, especially insurance brokers and agents are already subject to stringent regulation requiring brokers to be licenced and maintain ongoing professional development. It sits as part of the financial regulations affecting banks, mortgage brokers, and the like.

3) Government Insurer
Having previously worked for a government insurer in the 1980's in New Zealand, it's a great idea and premiums are normally cheaper than the open market (despite the open market competition idea) that is until the insurer starts to lose money (due to the likes of a poor claims year). Then the government isn't so keen 'be in the insurance business'. The only other way is to regulate price or premium for property insurance (previously called a tariff). Similar concept to some Workers Compensation schemes in certain States. As with the Workers Compensation, insurers withdraw if they can't make a profit (remembering insurers are companies that need to return a profit for the mum and dad investors).

4) Natural Disaster risks
Looking at New Zealand and it's EQC model, could be a viable way to manage all of Australia's natural disaster risks including Cyclone, Bush Fire, Earthquake and so on.
No reinsurer will only take on NQ for the risk of cyclone, without spreading the risk to lower event/risk areas. It would require to be a national scheme (a bit like the NDIS) and would mean that most of Australia would be supporting the few. Perhaps the reserves already accumulating in the Federal Governments Terrorism Pool could be used to 'kick start this' or leverage against (given the government has just taken $167Mn from the terrorism scheme)

5) Rebuilding costs are increasing
Cyclone Larry cost $500mn, Cyclone Yasi cost $1.4Bn, Cyclone Debbie so far cosy $1.6Bn. Airlie Beach is a newer area (so most property there is already to a 'code' and in good cyclone condition). It was mainly strata type buildings of concrete and iron rooves. The concern here is money is being thrown at risk mitigation. Will it really have any effect?

6) Tax
Changes to the Terrorism act now see Strata over $50Mn in value, or that have 20% commercial operation attracting a terrorism levy. Given the levy is calculated on 'base' premium, when in NQ the money raised will be higher (despite being a lower tier group). On top of the Levy is charged Stamp Duty and GST.

7) Portfolio Management
Many insurers look at their risks (say Homeowners) and it may not be performing. The normal action is to increase the portfolio premium by a certain percentage. The problem with this, is that NQ premiums are already higher so pay more of that increase than the balance of the hemisphere.

8) Body Corporate / Property Managers
There is concern the role a Body Corporate Manager plays in deciding which insurer or broker to utilise. Recently one of my clients was told by the Body Corporate Manager that "as the broker you have chosen is not our preferred broker, we will charge you for the administration on this claim". I also have concern that some Body Corporate Managers act as insurance advisors (without licence) advising the committee the difference between insurance policies and coverage.
In addition the Body Corporate Managers such as BCS have their own brokerage. As the Body Corporate Manager is part of the committee see most renewal offerings prior to be voting on, so can pass the same to their 'preferred broker' to get a better price with an increased commission (or back handed) earn. Then recommending to the committee to change, without knowing the differences between what was in place and what they've signed up for.

I trust this is acceptable.
Please fell free to contact me if you'd like.

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