

## 1. Your views on costs, premiums and profits

The ACCC seeks feedback from all interested parties on the following questions.

### 1. How have the key cost components of insurance pricing in northern Australia (particularly catastrophe risk) changed over time?

- How have insurers responded to any changes in key cost components over time?

*Increased premiums, data collection expense and some have reduced their support of brokers by reducing their commission.*

*Data collection appears to be the key to the insurers business.*

#### *Some Examples.*

*Several years ago, a national insurance underwriter visited Townsville to address one of our training seminars and demonstrated to the audience that on their mobile phone they could show a local area map marked with all their locally insured risks and the estimated Financial loss for various risks exposures.*

*Another Insurer advised that following poor claims experience with plate glass claims for businesses located near a railway station or Bus terminus they would not accept any such risks.*

*Insurers rely heavily on investors for capital. Having to advise ASX of a large loss due to a disaster does not assist then in retaining investors.*

- What factors could have a significant impact on the key cost components in the future?

*Climate conditions. According to weather researchers we can expect bigger, stronger and more frequent disasters the current forecast is for up to 12 cyclones expected ensuing year.*

*Majority of the public would not know about Cyclone Mahina in 1899. The worst cyclone (880 hectopascals) to hit Northern Queensland was followed a tsunami bigger than the one that hit Japan or Arche. Estimated at 13 metres high. The aftermath found dolphins stranded 15.2 metre high cliffs. Should a similar event occur next year the resultant financial property loss to the Australia is probably something Australia economy could not sustain without the financial assistance of the international investors.*

*In current times, the loss of life would be catastrophic.*

#### *Other causes*

*Bushfire*

*Social unrest*

*Drugs and crime rate,*

*Economic conditions of the area.*

*Water risk exposure.*

- What differences in key cost components exist across:
  - residential building, contents and strata insurance products?
  - different parts of northern Australia?
  - northern Australia compared to other regions in Australia?

*No DATA*

- What are the economies of scale and scope in supplying insurance in northern Australia?

*Due to population density, disaster repairs costs spiral. Usually it involves*

*accommodating southern based repairers for extended period in the north. To attract repairers to the area the cost of repairs increases considerably. In some instances, local repairs are not always used.*

- What impact does this have on insurers' costs?

*Increased repair costs.*

## **2. How is insurance for consumers in northern Australia priced?**

- How has the price faced by consumers changed over time for home, contents and / or strata insurance?

*Generally increased but insurers now request considerably more underwriting data from which they can price each risk based on the data for that location.*

- How do insurers price risk in northern Australia (including the key information sources, types of modelling undertaken and different market participants involved in this process)? How has this changed over time?

*Refer to Insurers. There appears to be many factors. They are very protective of this type of information. Prices and risk acceptance can vary between insurers.*

- To what extent (if any) are there cross-subsidies between consumers in northern Australia and other parts of Australia? Between regions within northern Australia?

*Refer to insurers*

- What else informs the process by which insurers set prices for insurance products?

*Refer to insurers*

- Are there any anomalies in how insurance products are priced in northern Australia?

*Not to our knowledge*

## **3. How has the profitability in northern Australian insurance markets changed over time?**

- What are appropriate measures of profitability in the general insurance industry? Over what time period should profitability be considered?

*Sufficient to retain the investors who support the insurers and reinsurers and have a profitable return.*

*In the past, 5 years was considered an appropriate time. This has changed with Insurers seeing their share value and retaining of investment funds undergoing major investment swings. A notice of a large loss can cause changes in share value.*

- How do insurers allocate costs to determine profitability in a particular region / market? Has this changed over time?

*Refer to insurers*

- Has the level of profitability in northern Australian insurance markets been commensurate with risk?

*Refer to Insurers. If it was profitable, would expect more insurers would participate in the northern insurance market?*

## 2. Your views on the competitiveness of markets for insurance

The ACCC seeks feedback from all interested parties on the following questions:

### 4. Which insurers are currently supplying home / contents / strata insurance in northern Australia?

The Insurers with whom our members transact business are QBE, CGU, Vero.

- Have insurers entered or exited markets for the supply of insurance products in northern Australia (within the last ten years)? What were the reasons insurers exited these markets?
- *Profitability, cost of claims, exposure,*

### 5. What are the most relevant measures for market concentration and the level of competition in markets for insurance in northern Australia?

*Market capacity is limited. To move a portfolio requires another Insurer to have sufficient capacity to accept the transferred business.*

### 6. How competitive are markets for insurance in northern Australia?

- How does this vary across:
  - different regions of northern Australia?
  - residential building, contents and strata insurance?

*Market capacity limits does restrict competition.*

### 7. How are insurance products marketed in northern Australia?

*Same as in other areas of Australia*

### 8. What strategies are used by insurers to retain and attract customers?

- To what extent do insurers use:
  - discounts for new customers? *YES, prime*
  - 'loyalty' discounts for existing customers?
  - discounts for consumers bundling multiple insurance products? **Yes**
  - price discrimination?
  - product differentiation? **No.**

### 9. How independently are decisions made relating to insurance pricing, availability, and terms and conditions, between an insurer's subsidiaries and / or brands? Between insurers within a large insurance group?

*unknown*

### 10. To what extent do intermediaries (including brokers and agents) and / or consumers have countervailing power (meaningful bargaining power and the ability to credibly threaten to switch to another supplier of insurance) in relation to insurance pricing, availability and terms and conditions?

*Market capacity is limited. There have been incidences in the past when our members were dissatisfied with an insurer wanted to move their portfolio only to find the most other insurers were close to capacity and unable to accept a transfer large portfolio of business.*

### 11. What impact does the payment of commissions to intermediaries have on the competitiveness of markets for insurance in northern Australia?

*No different to other Australian markets.*

### 12. How competitive are markets for reinsurance?

*No Knowledge.*

**13. Is there any evidence of anti-competitive conduct by industry participants, including collusive conduct and misuse of market power, in northern Australian insurance markets? Are there any factors that increase the potential for such conduct to occur in the future?**

*Not to our knowledge.*

1. The competitiveness of markets for insurance in northern Australia

## 2. Your views on the competitiveness of markets for insurance

The ACCC seeks feedback from all interested parties on the following questions:

### 14. Which insurers are currently supplying home / contents / strata insurance in northern Australia?

*QBE VERO CGU are the principal insurers used by our members*

- Have insurers entered or exited markets for the supply of insurance products in northern Australia (within the last ten years)? What were the reasons insurers exited these markets?
- *Profitability, cost of claims, exposure,*

### 15. What are the most relevant measures for market concentration and the level of competition in markets for insurance in northern Australia?

*Market capacity is limited. Even if our members were dissatisfied with an insurer and wanted to move their entire portfolio there is limited capacity to accept a large transfer portfolio of business.*

### 16. How competitive are markets for insurance in northern Australia?

- How does this vary across?
  - different regions of northern Australia?
  - residential building, contents and strata insurance?

*Market capacity limits does restrict competition.*

### 17. How are insurance products marketed in northern Australia?

*Same as in other areas of Australia*

### 18. What strategies are used by insurers to retain and attract customers?

- To what extent do insurers use:
  - discounts for new customers?
  - 'loyalty' discounts for existing customers?
  - discounts for consumers bundling multiple insurance products?
  - price discrimination?
  - product differentiation?

### 19. How independently are decisions made relating to insurance pricing, availability, and terms and conditions, between an insurer's subsidiaries and / or brands? Between insurers within a large insurance group?

*unknown*

### 20. To what extent do intermediaries (including brokers and agents) and / or consumers have countervailing power (meaningful bargaining power and the ability to credibly threaten to switch to another supplier of insurance) in relation to insurance pricing, availability and terms and conditions?

*Market capacity is limited. There have been incidences in the past when our members were dissatisfied with an insurer wanted to move their portfolio only to find the most insurers were close to capacity and unable to accept a large portfolio of business.*

### 21. What impact does the payment of commissions to intermediaries have on the competitiveness of markets for insurance in northern Australia?

*No different to other Australian markets.*

### 22. How competitive are markets for reinsurance?

*No Knowledge.*

**23. Is there any evidence of anti-competitive conduct by industry participants, including collusive conduct and misuse of market power, in northern Australian insurance markets? Are there any factors that increase the potential for such conduct to occur in the future?**

*NO*

**14. What are the barriers to entry, expansion and / or exit in the supply of insurance in northern Australia?**

- How significant are these barriers? Do these barriers differ:
- between different regions in northern Australia?
  - between different types of insurance products (home, contents and strata)?
  - *Insurers tell us the cost of reinsurance as well as the high cost of repairs.*
  - *It also appears that to obtain suitable reinsurance in Northern Australia there must be a significant southern Australia portfolio to offset the northern exposure.*

**15. Are there factors that could disrupt markets for insurance in northern Australia in the future? How likely are these to occur?**

*The Australian Insurance market is a very small percentage of the worldwide market, therefore is subject to any pressure of the international market.*

**16. What are the impediments to improved competition in markets for insurance in northern Australia?**

*additional risk of catastrophe claims and Insufficient Insurance premium pool to spread the risk across larger number policy holders.*

### 3.2 Your views on finding and using the information that you need

We are interested in how consumers find and receive information about insurance options (home, strata and contents) and how easy that information is to understand. We welcome views from all stakeholders. The following questions are a guide.

#### 23. What information is given to you by insurers and how useful is it?

- Does your insurer provide information to help you choose? Is it provided when you need it?

*The insurer has one or a number of policies to sell and should apply the similar rules as applied to the investment industry. Is the policy right for the Insured.*

- Does your renewal notice tell you how much price has changed?

*We have not seen examples of this.*

Do insurers explain how premiums have been calculated and the reason for price changes?

*Not to the general public. Brokers recognise when pricing is being changed due to the number of policies they deal with on a day to day basis.*

- What could insurers do to make it easier to understand their products?

*The product disclosure document has lost its original intention and now only adds to the number of pages causing more confusion for the general public.*

*In Claim disputes the first action of a broker is to check the policy wording for coverage in favour of their client.*

*The policy comparisons/websites are an assistance to the public but the client may not understand the technical meaning of a word in the PDS. The English language is well known as having many different interpretations.*

*Interpretation of policy wordings is a continual task. In the 1998 CQIB noted existing Landlords Insurance did not offer sufficient protection to the landlord. Subsequently we drafted our own wording and approached the Insurance Market. Since the start of this policy and constant updates and revised wordings (which were meant to cover the same exposures). Today we still continue to negotiate claim settlements over interpretation which has varied from past years.*

*Our General Insurance Broker Members do have the knowledge to assist the public to make more informed decisions about Insurance. When the public transact Insurance over the internet or directly with an insurer is there assistance? Many insurers offer a bonus e.g. we give you a \$50 credit card, if you do business with us over the internet? The value of the \$50 saving soon disappear once a claim is lodged.*

*One survey that comes to mind is that only 8 % of internet buyers open the product disclosure document and then based on time that section is open comprehension of the document is very very questionable.*

*Are all the products sold in the best interest of the buyer similar to the Investment advisers?*

*When the market had a standard policy wording (circa 1980's) it reduces public confusion but now with all the varieties additional benefits and reduction in benefits makes comparison is very difficult.*



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**24. Where else do you see or look for information?**

- How much effort is it to look for better or cheaper policies? How could it be easier?

*A considerable effort is required.*

*With all the advertising based on being cheaper it is a public focus. Cheaper usually means lower level of cover or poorer claims response. Is the product sold in the best interest for the buyer to apply lower cover policies?*

- What sort of advertising or marketing do you see and where?
- If you need help with understanding your insurance, who can you ask?

*There is only one option being a person who is charged with the buyer's interest. Insurance Broker. They have a defined role. A fully trained professional.*

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*Buying direct from an Insurer the telephone staff maybe paid a commission for getting a sale not for selling a policy to be suitable for the buyers risk exposure.*

- Have you used websites, tools or calculators to help research or compare, which ones?
- Our members have access to such tools as well as they have the experience in claims settlement and know the levels of claims service some Insurers offer. The cheapest may not have a good claims response.*

- Do you know about the North Queensland Home Insurance website? Is it helpful?

**25. Have you used, or considered using, a broker?**

- Why did you decide to use a broker?

*Our Members report that some of their customers have left them for a cheaper premium but when the first claim arrives the customer are quick to return to the broker to assist.*

- Or if you didn't use one after thinking about it, why not

- Did it make it easier for you to get a policy that you were more confident suited your needs?
- Customers tell us that it is more comfort knowing someone who has the professional experience to assist in the selection process.*

**26. How well are insurers meeting the information needs of all consumers?**

- Could you get information in another language, or by using a translator or TTY service?
- Do insurers have a branch in your town/region or do they visit so you can talk to them?
- What about consumers in very remote areas? Is mail, phone or internet access an issue?

**27. What are the information needs of strata unit owners and body corporate managers?**

- How difficult is it to get transparent and useful information about strata insurance?
- This class of insurance does require more knowledge than the average home policy. Knowledge must include the Body Corporate laws, legal obligations and responsibilities. How the Body Corporate and unit owners' policies intertwine. Many do not comprehend the basis of the valuation extra covers and how to calculate the loss of rent or temporary accommodation sum insureds.*

- How transparent is the information provided to strata unit owners?
- That would depend on who is addressing the Body Corporate Committee meeting*

*agreeing to renewal of the insurance. In some cases we have heard stories of the strata manager just talking about the cost. In many incidents we believe policy conditions, interpretation or Claims service are not discussed or considered. Price is the principal focus.*

**28. Have you seen examples of tools, technology or information sharing overseas or in other industries that could make it easier to understand insurance?**

*Technology does not have the ability to clearly explain the full pros and cons of one policy wording at this higher price to and another. What experience does the insurer have with dealing with Strata claims? There are specialised Insurers who have staff who only deal with Strata and not managing a house claim one minute and a strata next.*

### 1.1. Switching insurers

Competition encourages insurers to be innovative, to offer the sorts of products that consumers are demanding and to charge a reasonable price. If a consumer finds a product that suits their needs better, they can switch to the insurer that is offering that product. The amount of switching can provide helpful information about how much competition there is in the market.

Switching, however, relies on consumers having reasonable access to clear information so they can make an informed decision (as discussed in Section 3.1). But sometimes there are other barriers or deterrents that discourage consumers switching, such as paperwork and setting up new accounts.

Switching also relies on consumers having a choice between a range of insurers offering different products. The availability of insurance, and therefore the potential for consumers to shop around, varies across northern Australia.

We are interested in the switching activity of consumers in northern Australia — why some consumers have decided to switch insurer, and why other consumers decided not to.

### 3.3 Your views on switching insurers

We are interested in why consumers think about switching, whether there are barriers to switching, and whether switching saves money. We welcome views from all stakeholders. The following questions are a guide.

**29. If you have considered switching insurance in recent years:**

- Did you consider switching policies with the same insurer, to a different insurer, or both?
- How did you find and compare policies?
- Did you use the North Queensland Home Insurance website to compare policies?
- How many quotes did you compare?  Was it a lot of effort?
- How does the use of standard definitions, such as for 'flood', make it easier to compare?   
Was your focus on price or coverage or both?
- Why did you decide to switch or not switch?
- Did you think about using a broker to help you?

## 1.2. How are consumers and insurers trying to improve affordability of insurance?

There are a number of broad approaches consumers and insurers can take to manage concerns about rising prices in northern Australia. These include:

- Consumers switching to different insurers and/or products (see Section 3.3)
- Consumer and community actions to reduce the risk and size of damage
- Insurers designing different and more affordable insurance products
- Insurers making cost more manageable, such as through flexible payment options.

Section 4 of this paper considers measures that regulators, governments and industry could consider to improve the affordability and availability of insurance over the longer term.

### **Reducing the risk and cost of damage from natural disasters**

Reducing the risk and extent of damage (**risk mitigation**) can help to reduce insurance premiums now and into the future. Risk mitigation is a responsibility shared by consumers, property-owners, communities, insurers and governments.

Long term residents of areas prone to significant weather events may be experienced in preparing for the weather conditions of the north. But residents newer to high risk zones or renters moving between unfamiliar properties may be less knowledgeable about simple and low cost measures they can take. Renters face different challenges as they have less control over the changes they can make to the property they live in.

There is strong opportunity for community education and awareness initiatives to help residents understand actions they can take to reduce the risk and/or size of damage:

- Simple low-cost measures: minor claims can often be prevented with thorough and careful preparation, including attending to fencing damage, loose shade cloths, unfixed objects in gardens and water ingress. After-market bracing for roller doors could save between \$1,500 and \$10,000 in the event of a cyclone.<sup>1</sup>
- Retrofits and renovations: Research has shown that addressing weaknesses in modern homes could reduce cyclone damage bills by 8 per cent. For example, around 90 per cent of modern homes have roller doors, and Suncorp estimated their failure contributes to almost one in three large claims.<sup>38</sup>
- Building a new home or unit: Consumers may not understand the difference between a minimum building standard and best-practice standard, what options they have in building a new home, and how upfront expenses may pay-off over the long run or in a single damaging event.

Insurers are beginning to develop approaches that recognise the individual characteristics of houses and offering premium reductions and discounts to customers who have been able to invest in structural improvements to make their homes more resilient to damage.

### **Designing insurance to meet more consumers' needs**

Consumer groups, including the Brotherhood of St Laurence and Consumer Action Law Centre, have previously advocated for targeted products that focus on the needs of tenants and low-income residents to lower the barriers to the uptake of insurance for these groups.

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<sup>1</sup> Suncorp Insurance, Cyclone Testing Station, Urbis, *Build to Last*, a Protecting the North Initiative, 2015 <sup>38</sup>  
Suncorp Insurance, Cyclone Testing Station, Urbis, *Build to Last*, a Protecting the North Initiative, 2015.

According to a 2016 survey of 1000 Australian households undertaken for Understand Insurance, more than half (54 per cent) of renters have no contents insurance.<sup>2</sup>

Separate research has found that many properties without contents insurance are rented by people on low-incomes, including those living on welfare benefits or those living in public or social housing, young people, single people, and people from ethnic and migrant backgrounds.<sup>3</sup>

Most insurers have a minimum level of cover for contents. Some households could pay more if they choose a policy with a minimum cover that is higher than what they need.

According to Good Shepherd, one in five adults in Australia goes without general insurance protection for their household contents, car or home. Many of these people are uninsured, not because they don't want insurance, but because they can't afford traditional cover.<sup>4</sup>

The pressure of steep price premiums in northern Australia in particular puts a higher demand on targeted products that allow residents to at least be able to protect their most essential belongings, even if not everything. Low-income households usually have the least capacity to replace damaged belongings that are not insured.

Good Shepherd Microfinance has worked with insurance companies to create affordable and simple insurance policies. Consumers can choose between insuring contents that are worth between \$10,000 and \$20,000, or a single item (like a fridge or television). These policies have flexible payments options and some premiums can even be deducted from Centrelink benefits.<sup>5</sup> For example, Essentials by AAI<sup>6</sup> and Insurance4That.<sup>7</sup>

Some insurers are developing sophisticated capabilities that are allowing them to provide tailored premiums to individual situations – for lower risk houses, this can save money.

### **Flexible billing and the availability of Centrepay**

Cost is an important part of affordability. But affordability is more than just cost. It is also about practices that can make the same cost more manageable, such as flexible payment options that better match a household's cash flow and budget cycle.

Consumer groups have previously raised concerns about the low prevalence of mainstream insurers offering Centrepay as a billing option for Centrelink recipients.<sup>8</sup> Unlike direct debits which can be risky for low-income consumers (for example due to timing mismatch between deposited and withdrawn funds), Centrepay instalments match exactly with the cycle of a recipient's Centrelink payments. Centrepay is widely available in other industries supplying essential household goods and services.

The Consumer Action Law Centre has also previously raised concern that excesses for low income consumers are not always arranged as 'deductibles', which means consumers may have to make an up-front payment in order for their claim to be processed.<sup>9</sup>

<sup>2</sup> Understand Insurance, [www.understandinsurance.com.au](http://www.understandinsurance.com.au) is an initiative of the Insurance Council of Australia,

<sup>3</sup> Consumer Action Law Centre, Submission to the Senate Economics Reference Committee's inquiry into, Australia's General Insurance Industry, 10 February 2017.

<sup>4</sup> Good Shepherd Microfinance, viewed 30 August 2017, <http://goodshepherdmicrofinance.org.au/services/good-insurance/>.

<sup>5</sup> Good Shepherd Microfinance, viewed 30 August 2017, <http://goodshepherdmicrofinance.org.au/services/good-insurance/>.

<sup>6</sup> Essentials by AAI: <https://www.essentialsbyaai.com.au/>.

<sup>7</sup> Insurance4That: <https://insurance4that.com.au/>.

<sup>8</sup> Consumer Action Law Centre, response to the Natural Disaster Insurance Review (NDR) Issues Paper, 18 August 2011

<sup>9</sup> Consumer Action Law Centre, response to the Natural Disaster Insurance Review (NDR) Issues Paper, 18 August 2011  
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### 3.4 Your views on what consumers and insurers can do to improve affordability?

We are interested in how consumers and insurers are responding to concerns about affordability. We welcome views from all stakeholders. The following questions are a guide.

#### 30. Have you considered making alterations to your home, or building a new home to a higher standard, to reduce the risk of storm or cyclone damage?

- How did you find out about building for your local conditions?
- How did you decide that it was a 'worthwhile' investment?
- If you made any alterations, did this have any impact on your insurance premium? Has it already, or will it, save you money in the long run?
- If you didn't go ahead, why not?

#### 31. What are insurers doing and could they do more to help?

- Has your insurer told you how much you could save on your premium by taking action to make your house or belongings safer?
- Do you have billing options? Can you choose to pay fortnightly or monthly? How much extra does it cost to pay fortnightly or monthly?
- Can you get help if you are facing payment difficulties? Who can get a payment plan?
- Does your insurer offer Centrepay to eligible customers?
- Have you seen innovation? For example, does your insurer offer new or different policies to suit tenants, households on a low income, or people with only a small amount to insure?

#### 32. What are you doing to manage the cost of insurance?

- Have rising premiums motivated you to spend more effort looking for better policy options?
- Have you, or would you, reduce your level of coverage to save? Who else can you get help from?

### Your views – anything else?

**33. If you have a view or experience as a consumer to share that you haven't already covered in another question, please tell us about it.**

*Much focus and pressure is on lower premiums the worth of a policy is the claims settlement. One of the disadvantages for the public dealing direct with Insures is at claim time, the insured will have limited knowledge of how to read and negotiating with the Insurer.*

## 2. Risk mitigation

*The role of mitigation has been a significant area of interest in recent years and this chapter is an opportunity for stakeholders to share their views on the role mitigation can play in improving affordability for consumers.*

Mitigation is often proposed as a means to achieve permanent reductions in insurance premiums by reducing both the size and frequency of claims. Mitigation is essentially strategic and proactive measures taken in advance to remove or reduce the impacts and risks of hazards.

The Northern Australian Insurance Premiums Taskforce reported that insurance companies estimate that mitigation actions could reduce premiums for some properties by up to 20 per cent.<sup>47</sup>

Mitigation works can be undertaken privately, by individuals, to protect their own property and publicly, by governments, to protect the interests of the broader community. Public mitigation works can be:

- Structural (or 'hard') measures involve physical or engineering works to lessen the effects of an environmental hazard, such as improvements to drainage infrastructure to protect against flooding
- Non-structural ('soft') measures involve strategic approaches such as town planning policies, building codes, and research and education initiatives.

*Over the many years Insurers have contributed to the Risk Mitigation. Most northern Queensland towns have been damaged by a disaster at some time. When Insurers undertake repairs it includes latest building codes hence incorporate risk mitigation.*

## 2.1. Building for resilience

The Australian Building Codes Board (ABCB) sets the minimum requirements for the design, construction and performance of buildings. It does this through the National Construction Code, which comprises the Building Code of Australia (building code) and the Plumbing Code of Australia. It is the role of each state and territory to adopt and enforce the recommended standards.

Regulations are only changed where the ABCB is satisfied the benefits exceed the cost. Further, where it can, the ABCB looks to promote alternatives to regulation, such as non-mandatory guides. As a result, the regulations establish *minimum* standards, but not necessarily best practice standards.

In 1974, Cyclone Tracy caused 65 deaths and hundreds of millions of dollars of damage to 70 per cent of Darwin's homes (90 per cent in some areas). It prompted regulatory change to improve the construction processes that attach the roof to the house, making houses more resistant to severe wind damage.

Analysis after cyclones Vance (1999), Larry (2006) and Yasi (2011) showed that the updated regulations have resulted in much less building damage and consequent loss of life. During Cyclone Yasi, for example, 12 per cent of older homes suffered severe roof damage, but only 3 per cent of newer homes.

Residents of Innisfail faced the full brunt of Cyclone Larry in 2006 with wind gusts of 240 kilometres an hour. The rebuild brought many damaged houses in the town up to modern, cyclone resilient standards. When Cyclone Yasi crossed the coast with similar wind speeds five years later, claims from Innisfail were half the cost of those nearby towns that did not experience the post-Cyclone Larry rebuild.<sup>10</sup>

In Western Australia, building codes have required standards to meet a category four cyclone since 1974, a reason put forward for claims being much lower in Western Australia as a whole in comparison to other cyclone prone regions.<sup>49</sup>

Queensland introduced modern building codes in 1982 and there are an estimated 100,000 homes built before this date that may not meet current wind load codes.<sup>11</sup> Some

<sup>10</sup> Suncorp Insurance, Cyclone Testing Station, Urbis, *Build to Last*, a Protecting the North Initiative, 2015.

<sup>49</sup> Regional Development Australia, *Study on insurance and banking in the Pilbara*, August 2015.

<sup>11</sup> Suncorp Insurance, Cyclone Testing Station, Urbis, *Build to Last*, a Protecting the North Initiative, 2015.

stakeholders proposed government funding of a retrofit program targeting older housing as one of the most effective ways to keep insurance affordable.<sup>12</sup>

The Insurance Council of Australia commissioned research in 2015 that proposed a seven-year \$361 million scheme to retrofit vulnerable buildings in Queensland. The ICA report, *A Third Way*, reported it would cost between \$12,000 and \$15,000 per house to fit over-battens, and proposed a role for a government subsidy.

In contrast to wind events, there are currently no Australian housing design standards for resisting storm tides. The Queensland Government's guidelines on 'Rebuilding in storm tide prone areas', proposes design considerations for improved storm tide resilience to complement existing Australian standards for wind loads.

Also, the building code only covers structural elements of a home, which means that building materials used in non-structural elements of a building are not required to meet equivalent standards of wind resilience. For example, the Australian Standards for windows and doors do not require resilience to the same wind speeds and are often the first to fail during a cyclone.<sup>13</sup>

A 2002 report to the Council of Australian Governments (COAG) found that across 67 flood mitigation projects funded by the Australia Government, savings of \$2.10 had been achieved for every dollar invested. In areas of particularly high risk, the benefits for investment may be even greater.<sup>14</sup>

Land use planning provides an opportunity to reduce exposure to hazards and risk by controlling where development occurs.

Both the Natural Disasters in Australia report and the National Bushfire Inquiry, written for the Council of Australian Governments (COAG), noted land use planning as a significant mitigation measure for limiting disaster losses, and therefore likely insurance premiums in areas of new development.<sup>15</sup>

Highly effective land use planning requires a cooperative and collaborative approach between local and state and territory governments. For example, through shared mapping, data and information.

## 2.2. Educating for resilience

Home owners and residents of areas vulnerable to cyclones and related natural disasters need to be aware of what hazards and risks are addressed by building standards, and which ones are not. Mass public education and awareness initiatives can support local communities to be much more proactive in determining what level of risk is appropriate to their individual circumstances and what action they can take.

The Queensland Government, in partnership with the Queensland Reconstruction Authority and leading cyclone and architecture experts at James Cook University's Cyclone Testing Station, CSIRO, Australian Institute of Architects, GHD and Cassowary Coast Regional Council have developed guidance materials for properties affected by natural disasters. The guides contain practical recommendations for communities rebuilding in storm tide prone areas, as well as advice

<sup>12</sup> Australian Business Roundtable for Disaster Resilience and Safer Communities White Paper, *Building our nation's resilience to natural disasters*, through Deloitte Access Economics, June 2013.

<sup>13</sup> Suncorp Insurance, Cyclone Testing Station, Urbis, *Build to Last*, a Protecting the North Initiative, 2015

<sup>14</sup> Council of Australian Governments, 2002, *Natural Disasters in Australia: Reforming mitigation, relief and recovery arrangements*.

<sup>15</sup> Local Government Land Use Planning and Risk Mitigation: National Research Paper: December 2006, available at [http://alga.asn.au/site/misc/alga/downloads/emergency\\_mgm/LGLUP.pdf](http://alga.asn.au/site/misc/alga/downloads/emergency_mgm/LGLUP.pdf)  
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on cyclone safety and storm tide measures.<sup>16</sup> A separate guide is for properties that are rebuilding in areas along the coast that are prone to experience severe wind events.<sup>17</sup> The authors consider the guides will benefit communities around Australia and anywhere in the world where serious storms like typhoons and hurricanes are prevalent.

Insurers are developing new systems to better recognise mitigation activities. For example, Suncorp's online home and contents insurance quote calculator considers whether or not a consumer residing in northern Queensland has undertaken mitigation action and prepared themselves for the effects of cyclones.

#### 4. Your views on mitigation

We welcome views from all stakeholders interested on the following questions.

##### 34. To what extent could more investment in household mitigation activities contribute to addressing concerns about the affordability and availability of insurance?

- How significantly could risk (and premiums) be reduced with mass private mitigation activities?

*This is a question for the Insurers who set premiums.*

- In which type of properties does most mitigation activity occur (e.g. old, new, strata, houses etc.)?

*Usually the older buildings remote locations and constructions types.*

Where does it not occur?

- What unique issues do renters face? Which risks can they, and can't they, mitigate?

*No Control*

- Do landlords invest in mitigation?

*No information on which to reply.*

##### 35. What are the barriers to households and property owners undertaking private mitigation?

- Is there a lack of awareness about the risks, options, costs, and benefits?
- How important is upfront cost and an uncertain pay-off period in a household's decision?
- Is there a lack of awareness of the difference between minimum building standards and best practice?
- Is there concern that mitigation works will have flow on effects through raising a property's value (such as higher local government rates)?
- Are property owners concerned about affecting the aesthetics of their property?

*Many people wish to make their homes safer, however many have heavy financial commitments which just does not allow the investment into Mitigation*

##### 36. What role does the insurance industry have in promoting and contributing to public and private mitigation initiatives?

- How do insurers educate their customers about the risk mitigation activities they can undertake?
- How do insurers recognise and incentivise households that have undertaken mitigation works (either in a new build or retrofit)?
- Do insurers commit to a long-term premium discount following a retrofit or is it a one-off?

<sup>16</sup> The Queensland Reconstruction Authority, Planning for a stronger, more resilient North Queensland, *Part 1 - Rebuilding in storm tide prone areas: Tully Heads and Hull Heads*

<sup>17</sup> The Queensland Reconstruction Authority, Planning for a stronger, more resilient North Queensland, *Part 2 - Wind resistant housing*



- How do insurers contribute to public mitigation activities, for example by sharing data and information that can assist public planning and mass education?

*This would require Insurers to publish how they rate insurance. Any R&D they expended to recognise a possible previous unidentified exposure would be brought to their competitor's attention. This could also lead to a difficulty when they change their underwriting guidelines.*

**37. To what extent could stronger investment in public mitigation activities contribute to addressing concerns about the affordability and availability of insurance?**

- What should be the focus of public mitigation? Education, research, public works, or incentives?
- How effective has recent or current public mitigation activities been in reducing premiums?
- How effective are partnerships between government and industry?

*Could public mitigation activities act to encourage new insurers to enter markets in northern Australia?*

*Insurers risk exposure is based on history. There would have to be an extremely large investment in mitigation to cause such interest.*

*The Climate experts' future forecast is for more disasters with greater intensity. How do you build a building for future larger disasters which have no parameters?*

*Japan must have felt safe with public address evacuation systems and 4 to 9 metre tsunami walls. Nature soon took care of the walls.*

*Could you imagine the complaints from the Northern Queensland Tourist industry if the Government built 15 metre tsunami walls to protect the towns from another Cyclone Mahina (1899).*

*Could Australia sustain such an event without the financial assistance of the international investors?*

### 3. Regulation

*This chapter of our paper is for all stakeholders. It is particularly an opportunity for industry and regulators to provide views on how regulation could, or should, evolve to better address concerns about the affordability and availability of home, contents and strata insurance across northern Australia. This is a broad issue and broad feedback is welcome. Areas of recent interest include unfair contract terms, taxation and data sharing.*

Regulation in insurance serves to promote beneficial competition, ensure insurers are able to meet their obligations, and protect the interests of consumers. The general insurance industry in Australia is governed by a number of laws (most importantly the Insurance Act 1973, the Insurance Contracts Act 1984 and the Corporations Act 2001). The regulatory environment is supported by the voluntary General Insurance Code of Practice 2014. Appendix C sets out the framework in more detail.

Strata insurance is compulsory in the Northern Territory and Queensland under strata title or owners corporation legislation. In Western Australia the strata company must usually purchase strata insurance, but it can elect not to take out strata title insurance in some circumstances. A summary of the strata titles acts of each jurisdiction is at Appendix C.

**Table 1. Key regulations for general insurance**

Regulation	Main instrument	Regulator
<b>Prudential regulation</b>	Insurance Act 1973	Australian Prudential and Regulatory Authority (APRA)
<b>Contract regulation</b>	Insurance Contracts Act 1984	Australian Securities and Investments Commission (ASIC)
<b>Financial services</b>	Corporations Act 2001	Australian Securities and Investments Commission (ASIC)
<b>Consumer protection</b>	Australian Securities and Investments Commission Act 2001	Australian Securities and Investments Commission (ASIC)
<b>Competition regulation</b>	Competition and Consumer Act 2010	Australian Competition and Consumer Commission (ACCC)
<b>Industry code of practice</b>	General Insurance Code of Practice 2014	Voluntary, entered into with the Insurance Council of Australia and monitored by the General Insurance Code Governance Committee (CGC)

### 3.1. Information, disclosure and transparency

Section 3 of this paper discussed the importance of consumers having access to clear, transparent and understandable information. A range of recent initiatives intended to promote this objective, including key fact sheets, the North Queensland Home Insurance website, and the ICA's work on effective disclosure, are discussed as part of that section.

Regulation of the content and manner of information provision to consumers (and potential consumer) must continue to keep pace with the innovations and developments in the insurance industry, and an evolving understanding of consumer behaviour.

### 3.2. Unfair contract terms

In 2010, unfair contract term provisions were inserted into both the *Competition and Consumer Act 2010* and the *Australian Securities and Investments Commission Act 2001*. These laws are designed to protect consumers from unfair terms in circumstances where they have little or no opportunity to negotiate with the business, such as with standard form contracts.

The unfair contract term laws apply to most financial products and services but they do not currently apply to insurance contracts regulated by the *Insurance Contracts Act 1984 (Cth)* such as home, contents and strata insurance.<sup>18, 19</sup>

<sup>18</sup> Section 15 of the *Insurance Contract Act 1984* provides that insurance contracts are not capable of being made the subject of relief under any other Act (including the *Australian Securities Investment Commission Act 2001*) on grounds including that the contract is unfair. Therefore the unfair contract term provisions of the *Australian Securities Investment Commission Act 2001* do not apply to insurance contracts regulated by the *Insurance Contract Act 1984*.

<sup>19</sup> In 2012, the Australian Government announced its intention to legislate to extend the protections from unfair terms in the *Australian Securities Investment Commission Act 2001* to contracts for general insurance, however the resulting bill, the Northern Australia Insurance Inquiry Issues Paper \_ REPLY

While the Insurance Contracts Act contains its own protections for consumers (such as the duty to act in the 'utmost good faith' and specific disclosure requirements), they are not the same as unfair contract term laws.

In its 2017 report on its review of the Australian Consumer Law, Consumer Affairs Australia and New Zealand (CAANZ) commented that these protections have not been shown to provide equal or greater consumer protection. CAANZ went further to recommend that the unfair contract terms protections be applied to insurance contracts to strengthen, clarify and harmonise the rights and remedies available to consumers and increase options for redress.<sup>20</sup>

Consumer stakeholders have previously advocated for the exemption to be abolished.<sup>21</sup> Some industry stakeholders have raised concern that any proposal may affect the scope of insurance policy coverage (due to uncertainty about the terms that would be captured) and the availability of reinsurance (due to greater exposure to potential liability). It was said this could, in turn, lead to higher premiums for consumers.

### 3.3. Data availability and use

Advances in technology are providing insurance businesses with significantly improved access to detailed data about individual consumers.

However just as data advancements raises new possibilities in more sophisticated risk identification, risk assessment and risk mitigation techniques, it also raises new concerns with issues of access, sharing, trust and privacy.

The Productivity Commission released its report on Data Availability and Use in May 2017.<sup>22</sup> The report offers guidance on where the benefits of greater data use may be most evident, and how governments could generate community understanding of the costs, risks, and benefits associated with data sharing and use. It includes a recommendation for a new Comprehensive Right for consumers that would give individuals opportunities for active use of their own data and represent fundamental reform to Australia's competition policy in a digital world.

### 3.4. Taxes, levies and stamp duties

The combination of stamp duties, GST, and in some states, levies to help fund emergency services, can significantly inflate the cost of insurance premiums.

Many stakeholders have argued there is a clear social and economic case for eliminating or at least reducing taxes, levies and stamp duties on insurance.<sup>23</sup> This is based on recognition of the benefits of insurance to the economy and community generally and of the role of the tax system in encouraging insurance coverage. They argue that taxes on insurance are particularly inefficient and they contribute to non-insurance and under-insurance, particularly for lower income and vulnerable consumer groups.

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Insurance Contracts Amendment (Unfair Terms) Bill 2013 (Cth) lapsed at dissolution of the House of Representatives in 2013.

<sup>20</sup> CAANZ acknowledges that while consumer affairs ministers can endorse this proposal, the decision to implement it ultimately lies with the Commonwealth Minister responsible for administering the ASIC Act and the Insurance Contracts Act.

<sup>21</sup> Submissions by the Consumer Action Law Centre (CALC) and Financial Rights Legal Centre (FRLC) to The Senate Economics Reference Committee, Australia's General Insurance Industry, February 2017

<sup>22</sup> Productivity Commission, Productivity Commission Inquiry Report on Data availability and Use, No.82, 31 March 2017, <http://www.pc.gov.au/inquiries/completed/data-access/report>

<sup>23</sup> The Review of Australia's Future Tax System (also known as the "Henry review") said "all specific taxes on insurance products, including the fire services levy, should be abolished." See: Australia's future tax system: Final Report, Part 2: Detailed analysis, Chapter E: Enhancing social and market outcomes, 2 May 2010, p.474.

The Insurance Council of Australia commissioned two papers<sup>24</sup> that examined the abolition of stamp duties on insurance contracts. The research found removing state-based premium taxes would lead to 242,000 more Australian households taking out contents insurance and 38,000 buying house insurance.<sup>25</sup>

Stamp duty attracts particular attention for its link to affordability concerns, as it charged as a flat percentage of the insurance premium. So rather than a direct link to the value of the insured property (per se) or a person's capacity to pay, stamp duty is linked to the price of the insurance. A person in a low flood risk area with a house worth \$1 million could be paying \$1000 for insurance including \$100 for stamp duty. However a person in a high risk flood area with a house worth \$350,000 could be paying \$5000 per year for insurance including \$500 for stamp duty.

The ACT is currently the only jurisdiction that has phased out all of its insurance-based taxes, including stamp duty. Queensland increased its stamp duty on retail insurance from 5 per cent to 9 per cent in 2013. In all other states and territories stamp duty is at 10 or 11 per cent.

## 5. Your views on regulation

We welcome views from interested parties on the following questions.

### 38. To what extent could the regulatory requirements relating to information, disclosure and transparency be improved?

- What is the appropriate role for voluntary industry self-regulation of information provision?  
*Important. Regulations need to be made by persons who know the industry.*
- What is the appropriate role for mandatory government regulation of information provision?  
*Oversee the voluntary self-regulation and supply high penalties for nonconformity.*
- 
- How is innovation and technology providing new opportunities for improved engagement and information provision?  
*Improving Public Awareness*
- What lessons can be learned from overseas and other industries?  
*No Data*

### 39. To what extent does the exemption of insurance from unfair contract terms laws have on affordability and availability of insurance?

- What impact would removal of the exemption have on the affordability and availability of insurances?  
*Removing may cause all previous Insurance case law to require new interpretation, this may slow the claims process significantly.*
- What does the exemption achieve for consumers?  
*ensures that previous law interpretations can be used moving forward*

Is the exemption necessary to protect industry?

<sup>24</sup> Deloitte Access Economics Report for the Insurance Council of Australia, *Impact of removing stamp duties on insurance*, October 2015

<sup>25</sup> Dr Richard Tooth Report for the Insurance Council of Australia, *Analysis of demand for home and contents insurance*, August 2015

*Yes*

**40. What role should regulation play in how insurers manage consumers' personal data?**

- To what extent do, or should, consumers have access to the information held about them by their Insurer?

*Consumers should have full access to any personal data on their request*

## Appendix A. Terms of reference



## COMMONWEALTH OF AUSTRALIA

## COMPETITION AND CONSUMER ACT 2010

## INQUIRY INTO THE SUPPLY OF INSURANCE IN NORTHERN AUSTRALIA

I, Scott Morrison, Treasurer, pursuant to subsection 95H(1) of the *Competition and Consumer Act 2010*, hereby require the Australian Competition and Consumer Commission to hold an inquiry into the supply, by persons in the insurance industry, of residential building, contents and strata insurance products ("insurance") to consumers in northern Australia.

Matters to be considered by the inquiry shall include, but not be restricted to:

- i. the pricing and availability of insurance to consumers in northern Australia;
- ii. the key cost components of insurance pricing in northern Australia and how they have changed over time, particularly catastrophe risk;
- iii. the terms and conditions on which insurance is supplied;
- iv. the competitiveness of markets for insurance in northern Australia;
- v. the existence and extent of any barriers to entry, expansion and/or exit in the supply of insurance in northern Australia;
- vi. any impediments to consumer choice, including transaction costs, a lack of transparent information, or other factors;
- vii. identifying any regulatory issues, or market participant behaviour or practices that may not be supporting the development of competitive markets for insurance in northern Australia; and
- viii. the profitability of insurers through time and the extent to which profits are, or are expected to be commensurate with risk.

To inform its inquiry, the ACCC should monitor the activities of the insurance industry in northern Australia for a period of three years, commencing on 1 July 2017.

Northern Australia means the area defined has the meaning given in section 5 of the *Northern Australia Infrastructure Facility Act 2016*.

The ACCC should make use of publicly available information on the insurance industry, including that published by the Australian Prudential Regulation Authority, where appropriate.

This is not to be an inquiry in relation to supply by any particular person or persons.

The inquiry is to commence on 1 July 2017. The ACCC is to submit interim reports to me by 30 November 2018 and 30 November 2019. The inquiry is to be completed and a final report submitted to me by 30 November 2020.

DATED THIS 25<sup>TH</sup> DAY OF May 2017

SCOTT MORRISON

Treasurer

## Appendix B. Making a submission – treatment of information

We prefer that all submissions are publicly available, to facilitate an informed, transparent and robust consultation process. Accordingly, submissions that are not confidential will be posted on the ACCC website.

The *Competition and Consumer Act 2010* allows interested parties that provide written feedback to the Inquiry to make claims for confidentiality in certain circumstances. Where appropriate, we invite parties to discuss confidentiality issues further with us in advance of providing written feedback.

Any information that parties would like to claim confidentiality over should be provided in a separate document and should be clearly marked as “confidential” on every page. Reasons must be provided in support of the claim for confidentiality, so that we can properly consider whether the claim is justified.

The ACCC can accept a claim of confidentiality from the party if the disclosure of information would damage their competitive position. If we are satisfied that the confidentiality claim is justified, we must keep that information confidential unless we consider that disclosure of the information is necessary in the public interest.

If the ACCC considers that the confidentiality claim cannot be upheld, we will provide the parties with an opportunity to withdraw part or all of their feedback. If a party elects not to withdraw the information then we may disclose the information publicly.

If the ACCC subsequently considers that disclosure of the information that has initially been treated as confidential may be necessary in the public interest, the ACCC will consult with the party providing the information, before any such disclosure is made.

For further information regarding our use and disclosure of information provided to us, see the ACCC & AER information policy, which is available on our website at

<https://www.accc.gov.au/publications/accc-aer-information-policy-collection-and-disclosure><https://www.accc.gov.au/publications/accc-aer-information-policy-collection-and-disclosure-of-information>of-information

## Appendix C. Regulatory framework

### Summary of regulatory framework for insurance

**Prudential regulation – the *Insurance Act 1973*:** administered by the Australian Prudential Regulatory Authority (APRA), it requires a company carrying on an insurance business in Australia to be authorised by APRA. This Act also provides APRA with its prudential regulation powers, including the ability to make prudential standards and collect and monitor information.<sup>26</sup>

**Financial service regulation – the *Corporations Act 2001*:** administered by the Australian Securities and Investments Commission (ASIC), it imposes requirements on the provision of financial services and products to consumers, including some contracts of insurance.<sup>27</sup> There are also relevant requirements that relate to financial services licences, information and disclosure, as well the requirement to provide a Product Disclosure Statement (PDS).<sup>28</sup>

<sup>26</sup> ss. 12, 32, 38.

<sup>27</sup> See section 764A, some exclusions apply.

<sup>28</sup> s 1012A(3)



**Contract regulation – the *Insurance Contracts Act 1984*:** sets out the requirements relating to insurance contracts, including obligations on insurers and insureds. Most provisions apply to home, contents and some strata title insurance. The Act imposes good faith and disclosure duties, sets out standard cover for a range of insurance contracts, and imposes obligations on insurers to provide consumers with certain information.<sup>29</sup>

***Australian Securities and Investments Commission (ASIC) Act 2001*:** sets out the consumer protection regime for financial products and services, which including some contracts of insurance.<sup>30</sup> The ASIC Act includes provisions prohibiting unconscionable conduct, misleading or deceptive conduct, and making false or misleading representations.<sup>31</sup>

***The Competition and Consumer Act 2010*:** enforced by the ACCC, the CCA regulates the manner in which businesses interact with each other, for example by prohibiting anticompetitive behaviour, to ensure competition is not unduly restricted, and prohibiting mergers that would have the effect, or be likely to have the effect, of substantially lessening competition.

**The General Insurance Code of Practice** is a voluntary self-regulating code. It sets out the standards that general insurers must meet when providing services to their customers, for example when consumers are buying insurance, making claims, experiencing financial hardship, requesting information, or wanting to make a complaint. The Code is monitored by the General Insurance Code Governance Committee (CGC).

**Financial Ombudsman Services (FOS)** is the accredited dispute resolution service that assists consumers with resolving disputes with insurance providers. The FOS provides secretariat services to the CGC, which monitors the conduct of insurance companies under the General Insurance Code of Practice. [Summary of strata regulation](#)

**Queensland - *Body Corporate and Community Management Act 1997*:** This Act provides the regulation module applying to a community titles scheme may require the body corporate to put in place insurance for the scheme (s 189). The Act provides different regulation modules may apply to different community titles schemes, and where no other regulation module applies, the *Body Corporate and the Community Management (Standard Module) Regulation 2008* will apply.<sup>32</sup> These Regulations require a body corporate to insure the common property and the body corporate assets for their full replacement value (r 178). Such a policy must cover damage and costs incidental to restatement or replacement of insured buildings, including the cost of taking away debris and other fees, and must provide for the reinstatement of property to its condition when new. The owners of strata units must each contribute a proportionate amount to the premium. The insurance of the building (depending on the type of subdivision) is also specified by these Regulations (Chapter 8, Part 9).

**Northern Territory - *Unit Title Scheme Act*:** This Act requires that a body corporate must insure common property (s 52), and that the policy must 'insure against all reasonable costs for the reinstatement of any damaged common property'. Reinstatement of the damaged common property is the work that is required for restoring it to substantially the same condition as existed immediately before it was damaged (s 53).<sup>72</sup>

**Western Australia – *Strata Titles Act 1985*:** The requirements for strata title insurance in WA depend on the type of building. For a single tier strata title scheme, the strata company

<sup>29</sup> Sections 13, 21, 37, 37G.

<sup>30</sup> ss 12BA and 12BAA.

<sup>31</sup> ss 12CB, 12DA, 12DB.

<sup>32</sup> See subsection 21(6) of the *Body Corporate and Community Management Act 1997* and sub-regulation 3(1) of the *Body Corporate and the Community Management (Standard Module) Regulation 2008*. <sup>72</sup> Insurance requirements can also apply under the *Unit Titles Act (NT)*.

must take out insurance of common property buildings (to their replacement value), and damage to common property, unless the company unanimously decides not to (s 53C). For non-single tier strata schemes (i.e. multi-storey buildings), the strata company must take out insurance for the building to its replacement value against certain events (such as fire, storm and tempest, and lightening), and insurance for damage to any common property (s 54).