



Friday September 6 2019

ACCC

Northern Australia Insurance Inquiry,

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Melbourne, VIC 3001.

Email: [insurance@accc.gov.au](mailto:insurance@accc.gov.au)

To Whom it May Concern,

**Re: Northern Australia Insurance Inquiry – Focus Area 1: Measures to further improve insurance affordability and availability.**

On behalf of the Mackay Isaac Whitsunday region, we would like to provide a response to Focus 1 in the ACCC Northern Australia Insurance Inquiry Second Update Report.

We particularly welcome the draft recommendations that deal with greater disclosure and transparency as well as plain English easy to understand insurance policies.

Greater Whitsunday Alliance (GW3) and Regional Development Australia-Mackay Isaac Whitsunday (RDA MIW) commend the ACCC for its diligence and recommending immediate changes to give the people of Northern Australia some relief from escalating insurance premiums and we support the option of a stronger public policy response to effect greater change to the insurance affordability market.

GW3 and RDA MIW remain committed to advocating for insurance affordability and access in the Mackay Isaac Whitsunday region. We look forward to working with the Federal Government and the ACCC to identify and deliver important regional outcomes for the Mackay Isaac Whitsunday region.

Yours Sincerely,

John Glanville – Chair

Greater Whitsunday Alliance Ltd.

Darryl Camilleri

Acting Chair – RDA Mackay-Isaac-Whitsunday

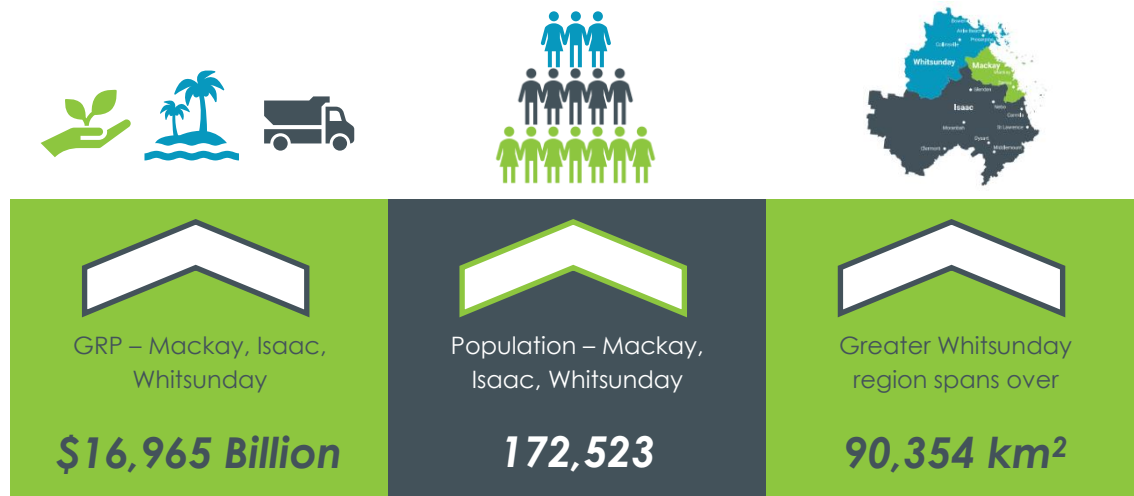


# SUBMISSION

## **ACCC Northern Australia Insurance Inquiry Second Update Report**

Focus Area 1: Measures to further improve insurance affordability and availability.

## REGIONAL OVERVIEW



Greater Whitsunday statistics, source: Remplan (Mackay, Isaac, Whitsunday) <sup>1</sup>

## INTRODUCTION

This is a joint submission between Greater Whitsunday Alliance Ltd (GW3) as the lead regional economic development organisation for the Mackay-Isaac-Whitsunday Region and Regional Development Australia Mackay-Isaac-Whitsunday Inc. (RDA MIW) one of 55 Regional Development Australia bodies nationally.

This a submission in response to the Northern Australia Insurance Inquiry Second Update Report and addresses recommendations in Focus Area 1.

## BACKGROUND

GW3 and RDA MIW has submitted 2 prior documents to the ACCC Inquiry **RE: Regional Insurance Affordability**. The first Submission was made in 2018<sup>2</sup> as part of the submissions to issues paper and was followed up with the Northern Australia Insurance Inquiry Submission to first interim report 2019<sup>3</sup>.

In summary, the Mackay Isaac Whitsunday region identified that it has been subjected to steep increases in the cost of premiums, and residents and businesses alike are finding it difficult to secure adequate insurance cover. Additionally, the changes in conditions enforced by insurers such as increased excess amounts in the event of a claim or offering only part cover is making it difficult for property owners to reinsure or secure adequate cover. Both previous submissions presented clear evidence that residents living in Northern Australia are being prejudiced by insurance companies and that is impacting the entire community and, in some cases, causing economic hardship. Affordable access to insurance for the residents of Northern Australia should be a priority of the Federal Government to maintain working families and businesses in the regions; underpin regional economic development and truly align to the goals of Northern Australia White Paper.

<sup>1</sup> Remplan economics

<sup>2</sup> Greater Whitsunday Alliance Northern Australia insurance inquiry Submissions to issues paper (2018)

<sup>3</sup> Greater Whitsunday Alliance Northern Australia insurance inquiry Submissions to first interim report (2019)

## FOCUS AREA 1: MEASURES TO IMPROVE AFFORDABILITY AND AVAILABILITY

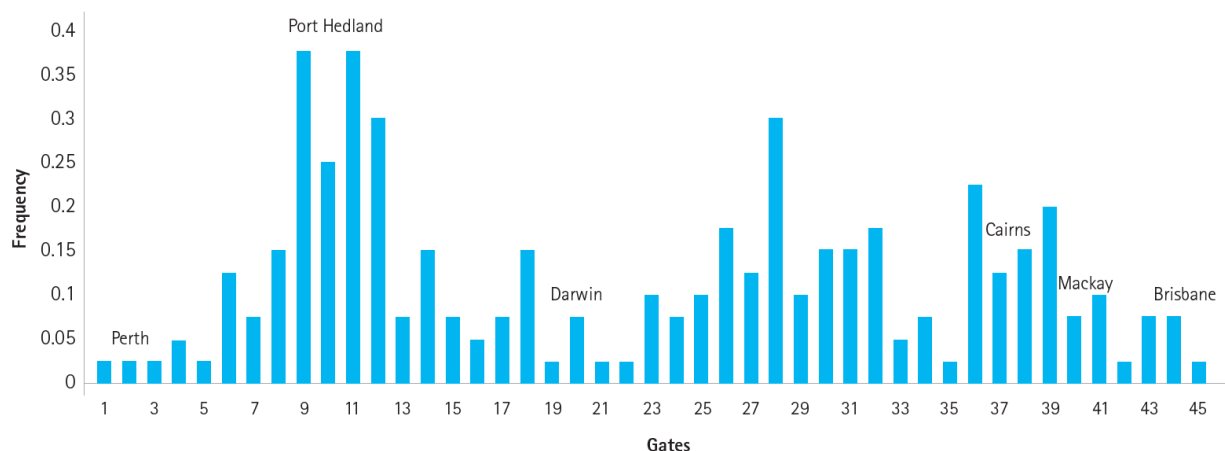
### REINSURANCE POOL AND INSURANCE MUTUAL

GW3 and RDA feels that a reinsurance pool is likely to provide residents of Northern Australia with the most advantage due to the following:

- Provides fair and equitable insurance coverage for all Australians, not just those living in southern parts of Australia;
- Provides certainty for the broader insurance industry to more genuinely participate in the Northern Australia markets.
- Underwriting levels of insurance costs covered by government to the private insurance companies reducing risk and liability

The potential impact of a reinsurance pool would be to create a more fair and equitable level of insurance pricing across Australia. For example, the differential comparison between a median price Andergrove property in Mackay and an Everton Park property in Brisbane increased from 84.6% to 164.9% between 2016 and 2018. The high insurance cost impact on a median price dwelling in the mortgage belt in Mackay is directly impacting young families and middle-income earners as well as significantly impacting pensioners with insurance equating to over 21% of total maximum pension rate for a single pensioner. This reinsurance practice is impacting those who can least afford it and leading to under-insurance or non-insurance of homes.

This is regardless of the fact that a study conducted by the RDA in 2015, found that the frequency of cyclones and associated impacts is not much higher in Mackay than Brisbane, however Mackay premiums are significantly higher.

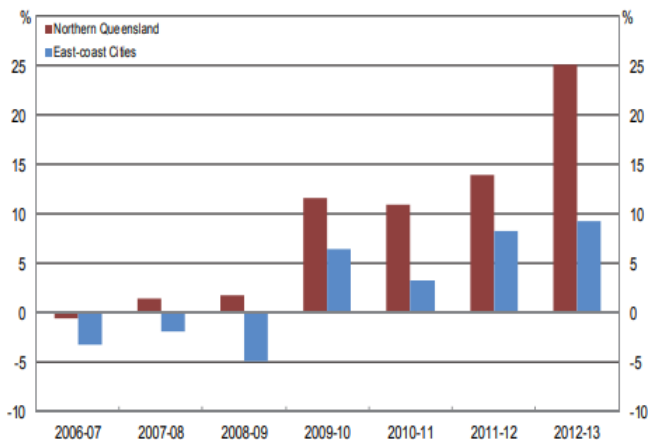


Source: (Federal Task Force: August 2015)

Figure 20: Frequency of Cyclones in Northern Australia <sup>4</sup>

### Home and Contents Insurance Comparison

Per \$.000 of insured value, percentage change

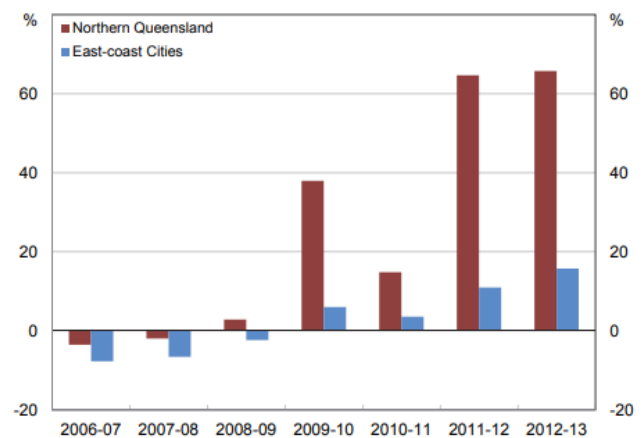


Source: (Federal Task Force: August 2015)

Figure 1: Annual increase in insurance premium rates – home and contents insurance <sup>5</sup>

### Strata Insurance Comparison

Per \$.000 of insured value, percentage change



Source: (Federal Task Force: August 2015)

Figure 2: Annual increase in insurance premium rates – strata insurance <sup>6</sup>

The increased cost of insurance and changed insurance conditions not only impacts residential properties but also commercial, strata and major industrial sites. The figures shown above (Figure 1 & Figure 2) highlight the drastic changes that have occurred over a short period of time. This data is showing a non-comparable detail for those above the Queensland Tropic of Capricorn.

The following table highlights the insurance premium hike for a local commercial marina operator: -

	2013	2014	2015	2016	2017
<b>Marina Installation</b>	\$92,480.77	\$81,698.02	\$81,698.02	\$81,698.02	\$356,287.10

The premium hike is a significant imposition for the ongoing viability of marina businesses and the operators are having difficulty securing ongoing insurance and/or appropriate coverage.

The Marina is an economic driver for Mackay and if forced to operate in a reduced capacity or close it will have a significant negative regional economic impact in Mackay. Major infrastructure and services providers like North Queensland Bulk Ports are also reporting insurance premium rises by more than 300% and significant changes to insurance conditions.

<sup>5</sup> Figure 1: Annual increase in insurance premium rates – home and contents insurance (page 8)

<sup>6</sup> Figure 2: Annual increase in insurance premium rates – strata insurance (page 9)

## DIRECT SUBSIDY

A direct subsidy option would be welcomed by Northern Australians. Direct subsidy would provide a fair approach to enhance uptake of insurance, give consumers more confidence in appropriately insuring for value, and has the potential to provide more choice of market competition.

Subsidy needs to be considered for;

- Consumers facing acute affordability issues
- Policies that are higher than a % value using a mechanism for weighted average (including all areas **south of the Tropic of Capricorn**)
- Policy holders with multiple policies (combination over weighted average)
- Subsidy to be utilised prior to full payment (if the subsidy amount can be deducted from consumers total amount [clearly shown as amount on documentation] and does not restrict terms of payment i.e. Annual, monthly etc.)
- Deducting tax from the payable amount

The Government can deduct the taxable amount from a policy premium and apply a direct subsidy to ensure affordability and availability.

## MITIGATION

From the stakeholder views in the Northern Australia Insurance Inquiry Second update report - 3.4.1, it is refreshing to see some strong supporters of measures being specifically documented for broader transparency. With current flexibility on how insurers disclose mitigation discounts, there is no standard or compulsory guidelines set to assist consumers in decreasing risk to their property or showing them how their changes have reduced their policy premium.

Any standard mitigation measures should be clearly governed and recognised across the nation to ensure consistency in risk mitigation for insurance purposes. This has the potential to provide a fair approach to accessing market competition, reinsurance and premium reductions.

We urge the ACCC to recommend complete financial sensitivity analysis for mitigation scenarios. The analysis would ideally showcase the opportunities and actions that insurance providers and asset managers could implement in providing solutions that can reduce catastrophic risk and or damage. For example, local governments working with the insurance industry and State and Australian governments could assess the impact of improved drainage (1-500 or 1-1000-year event) v/s 1-100-year event. This analysis could determine costs benefits relating to an ability to upgrade drainage and its influence toward reducing flood risk and lowering insurance costs and replacement and disturbance costs and social heartache. This type of assessment could then provide information with which community and local governments can build into planning and maintenance works and allows for accurate insurance provider assessments of risk.

The Second Update Report highlights the need for the Government to implement measures to promote private mitigation. Subsidies and tax relief are a broader problem for the affordability of insurance and cannot burden Northern Australians due to mitigation that cannot be achieved at an individual property level. If there are known areas of high risk (and excessive policy amounts), more information may need to be directed at the individual property owner, as subsidies can often be time consuming to find, be misconstrued as false or scam, or accessibility to information is difficult.

Creating a stable and more accurate assessment measure has the potential to open the insurance market for coverage, whilst creating more opportunities, competition and incentive for consumers. We support the call for Insurers and Governments to work together playing a central role to identify, install and acknowledge mitigating measures as Focus Area 4 becomes more defined.

## OTHER MEASURES

### PREVIOUS RECOMMENDATIONS: ABOLISH STAMP DUTY ON HOME, CONTENTS AND STRATA INSURANCE PRODUCTS

**Recommendation 2: Re-base stamp duty; use stamp duty revenue for affordability & mitigation**, has been replaced by Recommendation 14. The consolidation of the previous recommendation is lost in translation in the Second update report. The reduced premiums have been changed to premiums reduced after the stamp duty has been applied to projects that support general works carried out to mitigate risk for an area. As previously discussed, mitigated risks on this scale take too long to complete, and too long to be taken up by insurers. Whilst this takes considerable time and funding, the consensus would be that support to consumers through a direct subsidy and taxable deduction is necessary in reducing premiums until works are completed, assessed, measured and readjusted.

### RECOMMENDATION 19: NATIONAL HOME INSURANCE COMPARISON WEBSITE

Creating a platform with a wealth of knowledge for Insurance comparability Nationwide would be received with much appreciation. There is a site that has been created specifically for North Queensland<sup>10</sup>, however, the site is very basic and limited in providing any current, tangible or specific information to a consumer.

If a National site is created, with all standard measures from this inquiry integrated, it has the potential to be the most effective, informative insurance tool for all Australians. For a National Home Insurance Comparison Website to be adopted, the ACCC, State and Federal Governments role would need to include owning the integrity, conformance by insurers and transparency for consumers.

When envisioning the possibilities of such an informative tool, there are other measures that can be added to assist insurers and consumers. The proposed needs to have the ability to show geographical information down to a street level (if an individual property level cannot be achieved), providing consumers and insurers information available on actual claim related activity. This also gives users a more comprehensive awareness about claim related activity in the areas that are impacted when deciding the level over coverage they may require. This website has the potential to create other methods of engagement like reporting fraudulent insurance activity that can be conveyed directly to the insurer for assessment.

<sup>10</sup> NQHI – North Queensland Home Insurance website



## CONCLUSION

Greater Whitsunday Alliance (GW3) and Regional Development Australia-Mackay Isaac Whitsunday (RDA MIW) are of the belief that all Australians can benefit from this inquiry, as it is not limited to Northern Australians with the broad insight and knowledge that has come forward through the Second update report. We support the majority of all recommendations throughout the submissions and reports to date. We would like to summarise some of the key points we believe are strong and will eliminate affordability issues in the future.

### AFFORDABILITY FOR NORTHERN AUSTRALIANS

- Direct Subsidy to make insurance affordable and accessible
- Reinsurance pool to provide more equitable and fair insurance for Northern Australians
- Tax & Stamp duty relief still welcome by Northern Australians

### TRANSPARENCY FOR ALL AUSTRALIANS

- More information on renewals, PDSs and KFSs
- Updated policy information with stronger disclosure
- Easier to understand, clearer terms and transparent approach
- Regulated insurance repair behaviour

### DEFINED MEASURES TO CALCULATE

- Accurate and fair measures for calculating premiums with risk
- Transparent risk mitigation measures to be outlined in PDSs and KFSs
- Easier to understand, clearer terms and transparent approach
- Consistent guidelines for services when making a claim

### INFORMATIVE NATIONAL TOOL

- Nationwide comparison site
- Equal platform for all Australians
- Provide information down to a street level for consumers (with risk indicative)
- Opportunity to create a new standard on a National level

Once again, Greater Whitsunday Alliance (GW3) and Regional Development Australia-Mackay Isaac Whitsunday (RDA MIW) commend the ACCC for its diligence and recommending immediate changes to give the people of Northern Australia some relief from escalating insurance premiums and we support the option of a stronger public policy response to effect greater change to the insurance affordability market.

