



# Northern Australia Insurance Inquiry

Update report

June 2018



Australian Competition and Consumer Commission  
23 Marcus Clarke Street, Canberra, Australian Capital Territory, 2601  
© Commonwealth of Australia 2018

This work is copyright. In addition to any use permitted under the *Copyright Act 1968*, all material contained within this work is provided under a Creative Commons Attribution 3.0 Australia licence, with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the Director, Content and Digital Services, ACCC, GPO Box 3131, Canberra ACT 2601.

**Important notice**

The information in this publication is for general guidance only. It does not constitute legal or other professional advice, and should not be relied on as a statement of the law in any jurisdiction. Because it is intended only as a general guide, it may contain generalisations. You should obtain professional advice if you have any specific concern.

The ACCC has made every reasonable effort to provide current and accurate information, but it does not make any guarantees regarding the accuracy, currency or completeness of that information.

Parties who wish to re-publish or otherwise use the information in this publication must check this information for currency and accuracy prior to publication. This should be done prior to each publication edition, as ACCC guidance and relevant transitional legislation frequently change. Any queries parties have should be addressed to the Director, Content and Digital Services, ACCC, GPO Box 3131, Canberra ACT 2601.

ACCC 06/18\_1412 [www.accc.gov.au](http://www.accc.gov.au)

# Contents

<b>1.</b>	<b>Executive summary</b>	<b>1</b>
<b>2.</b>	<b>Introduction</b>	<b>3</b>
<b>3.</b>	<b>Insights shared at our public forums</b>	<b>4</b>
3.1	Common themes across the forums	4
3.2	Regional themes	4
<b>4.</b>	<b>Consultation on our issues paper</b>	<b>6</b>
4.1	Local residents and property owners	6
4.2	Consumer representative and advocacy groups	7
4.3	The Financial Ombudsman Service	7
4.4	Owners corporations and organisations for strata management	7
4.5	Insurance brokers	8
4.6	Local councils and regional development	8
4.7	Insurance industry	9
4.8	Actuaries	10
<b>5.</b>	<b>Early observations about trends in insurance premiums</b>	<b>11</b>
5.1	Markets for home, contents and strata insurance	12
5.2	Insurance premiums in northern Australia	15
<b>6.</b>	<b>Current focus of the inquiry</b>	<b>22</b>
	<b>Appendix A. Terms of Reference</b>	<b>24</b>
	<b>Appendix B. Map of Northern Australia</b>	<b>25</b>
	<b>Appendix C. Useful contacts for consumers</b>	<b>26</b>
	<b>Appendix D. Home, contents and strata insurance brands (2016-17)</b>	<b>29</b>

# 1. Executive summary

The ACCC commenced its Northern Australia Insurance Inquiry on 1 July 2017. This is a short update of our insights to date, lines of further investigation, and preliminary observations from data analysis of the home, contents and strata insurance markets in northern Australia.

Around 150 people participated in the eight public forums that the ACCC held in Townsville, Cairns, Rockhampton, Mackay, Darwin, Alice Springs, Broome and Karratha through November and December 2017 to hear directly from residents. Over 280 individuals, groups and businesses with an interest in the insurance industry and northern Australia made submissions to our Issues Paper, which was released in October 2017.

Local residents and property owners have expressed frustration, confusion and anxiety about the affordability and availability of insurance. Some participants said that insurance premiums are rising significantly and people and families are facing increasing financial distress. Reports of renewal notices for home and contents premiums exceeding \$10 000 per year were common, especially in the west.

Communities told us price rises are not well-understood and seemingly unjust, particularly for households who have not made a claim and believe they live in an area that has not, or would not, be affected by cyclone or flooding. We similarly heard people say they are not being rewarded by insurers with reduced premiums for mitigation activities to improve the resilience of their properties. This seems to contrast feedback from industry that insurers are increasingly taking into account the circumstances of individual properties.

People say they are taking action to lower their premiums, for example by shopping around and raising their excesses, but consider there is little choice, especially in strata insurance markets and regional towns. The compulsion to insure, whether by law for strata properties or a condition of a mortgage imposed by a lender, was also a theme of concern.

Submissions from consumer representative groups shared comparable stories and similarly raised the need for more transparency in premium pricing and better disclosure of information to consumers. They continue to advocate for the removal of the exemption of insurance from unfair contract terms laws.

The headline concerns we heard about engaging in home, contents and strata insurance markets are, in many regards, consistent with concerns the ACCC hears in other critical markets such as energy, telecommunications and financial services.

In parallel to our public consultation, we have obtained information from insurers using our compulsory information gathering powers, which has allowed us to gain unique insight into the home, contents and strata insurance markets. We have received a significant volume of documents from the insurers to whom we served notices. Our review of this information is underway but already we can make useful observations about the market.

Our analysis has so far focused on insurance premiums paid by consumers and market share trends, and we set out some preliminary observations in this report. We have not yet completed our analysis of the cost to insurers of supplying insurance in northern Australia, for example through claim payouts and other significant expenses. We therefore do not make any comment about the profitability of providing insurance in northern Australia in this report, however in future reports we expect to do so. The observations discussed in this report are preliminary and may be revised in subsequent reports based on further data collection and analysis.

The vast majority of home, contents and strata policies in northern Australia are supplied (or underwritten) by eight insurers. All eight insurers operate in north Queensland, and seven operate in north Western Australia and six in the Northern Territory. Only postcodes for Nullagine and Telfer in Western Australia and Corfield in Queensland have fewer than four insurers supplying insurance.

The eight main insurers currently supply home and contents insurance under 45 brands throughout northern Australia, although not all brands operate in all postcodes. The average number of brands per postcode varies, from 18 in the Northern Territory, to 20 in north Western Australia and 23 in north

Queensland. The number of brands used by the insurers to sell home and contents insurance can make it look like there are more suppliers than there actually are. However our analysis suggests that premiums across a single insurer's brands can vary considerably.

Northern Australian home and contents insurance markets are a small part of the national market. While northern Australia makes up only 5 per cent of the number of policies, it accounts for about 10 per cent of premium revenue.

Currently, the majority of strata insurance policies are provided in north Queensland (6000), followed by Northern Territory (1400). There are very few strata policies (130) in north Western Australia.

Between 2007–08 and 2016–17, average home and contents premiums, adjusted to account for changes in the sum insured, have increased by between 23 and 67 per cent in northern Australia, and by 16 per cent in the rest of Australia. During the same period, strata insurance premiums (per sum insured) rose by between 60 and 80 per cent in north Queensland and north Western Australia but remained relatively flat in the Northern Territory and the rest of Australia.

In 2016–17, the average annual home and contents premium in northern Australia was \$2000, which is about double the average for the rest of Australia. North Western Australia was the highest at \$2700 per year. Strata insurance premiums in northern Australia were more than double the premiums in the rest of Australia. However these figures are averages only and premiums for home and contents insurance are not uniform across northern Australia, or for all consumers within each region. The highest cost regions appear to be concentrated along the coast of north Queensland, far north Queensland, the Pilbara, Darwin and central Australia.

In 2016–17, the difference between insurers' pricing appears to be greater in northern Australia than in the rest of Australia. Premiums for combined home and contents insurance in northern Australia can vary between insurers by as much as \$3.40 per \$1000 insured, compared to \$0.90 per \$1000 insured in the rest of Australia.

While these observations lend support to the general trends and concerns raised through the public consultation, the stories of premium quotes and movements shared by individuals during our consultation was often more extreme than these averages.

As we investigate and monitor the industry over the next two and half years, we expect to be able to shine more light on a range of important questions that people in northern Australia are asking, such as how are insurers setting premiums? Are insurance markets competitive? What is the role or significance of commission payments? How do insurers account for mitigation initiatives? And are insurers communicating effectively with consumers about their insurance?

We will provide a further report in November 2018. This report will be important. It will set out to the people of northern Australia how we believe the home, contents and strata insurance markets are really working. It will also make initial recommendations to government and industry about what we see as any opportunities for change, which we expect to build on in two further reports in November 2019 and 2020.

## 2. Introduction

On 25 May 2017, the Treasurer, the Hon Scott Morrison MP, directed the Australian Competition and Consumer Commission (ACCC) to hold an inquiry into the supply of residential building (home), contents and strata insurance products to consumers in northern Australia. The terms of reference is at Appendix A.

Our inquiry will provide a detailed picture of the insurance market in northern Australia. Our goal is to assist governments and industry stakeholders to address concerns about insurance affordability and availability, promote better informed and more competitive insurance markets and thereby make a difference for consumers in northern Australia.

For the purposes of this inquiry, northern Australia broadly corresponds with the Northern Territory, those parts of Western Australia and Queensland that are north of the Tropic of Capricorn and some areas just south of the tropic, including Carnarvon and Gladstone.<sup>1</sup> A map is at Appendix B.

As part of our inquiry, we are looking at a range of issues and concerns common to insurance in northern Australia:

- insurance pricing, the key cost components of insurance and insurer profitability
- the competitiveness of markets, including the behaviours and practices of insurers
- consumer engagement with insurance markets including impediments to consumer choice
- other regulatory issues that may not be supporting the development of competitive markets for insurance in northern Australia.

The inquiry formally commenced on 1 July 2017. We must submit interim reports to the Treasurer by 30 November 2018 and 30 November 2019. The inquiry is to be completed and a final report submitted to the Treasurer by 30 November 2020.

We have provided this report to the Treasurer, and published it for interested stakeholders, to provide an update on:

- insights shared with us at the eight public forums we held across northern Australia (chapter 3)
- submissions we received in response to our issues paper (chapter 4)
- early observations about insurance markets in northern Australia based on information we have collected from insurers (chapter 5)
- the current focus of the inquiry (chapter 6).

We appreciate the participation of stakeholders in our inquiry. At times during our public consultation, we have been asked by consumers about how they can resolve disputes or concerns they have with their insurer. The ACCC generally does not have jurisdiction to resolve concerns and complaints that individuals have with their insurer. We have provided some useful contacts in Appendix C. For further information about the Northern Australia Insurance Inquiry or this report, please contact [insurance@accc.gov.au](mailto:insurance@accc.gov.au).

---

<sup>1</sup> More formally, Northern Australia has the meaning given in section 5 of the Northern Australia Infrastructure Facility Act 2016.

## 3. Insights shared at our public forums

We held public forums in Townsville, Cairns, Rockhampton, Mackay, Broome, Karratha, Darwin and Alice Springs between 15 November and 6 December 2017. Over 150 people attended our forums, with each attracting between approximately 10 (Alice Springs) and 45 (Mackay) people. We welcome the interest of local communities who attended our forums and shared their views and experiences with us.

A summary of each public forum is on the ACCC website.<sup>2</sup>

### 3.1 Common themes across the forums

Participants were emotional, some brought to tears. Some were angry, many were frustrated, disillusioned and anxious. They spoke of insurance premiums rising substantially, pushing them into real financial distress. Some said they couldn't afford to stay in their town, but they couldn't afford to go. They considered the possibility of removing stamp duty on insurance premiums as a big opportunity to lower premiums.

Participants typically spoke of not having ever made a claim and living in an area that hasn't or wouldn't be affected by a cyclone or flooding. In this context, price increases were not well-understood and were, in participants' minds, unjust. Participants were critical of the role played by media in 'hyping up' weather events despite minimal personal property damage.

Participants commonly felt they were being exploited by their insurer and their premiums were subsidising another region of the country subject to adverse weather conditions. Participants in north Queensland were concerned they were subsidising weather events in south east Queensland (for example Brisbane floods and hail storms). Participants in Western Australian forums were concerned they were subsidising the whole east coast.

Insurers were said to have little or no consideration for individual property situations and instead participants felt that premiums were being determined at a postcode or regional level. They often said there was little incentive to invest in mitigation activities to improve the resilience of their properties; building or renovating to best practice and cyclone-level building standards did not seem to have much impact on premiums.

Participants said they attempted to reduce premiums through regularly shopping around, increasing their excess and reducing their coverage, or even forgoing insurance altogether. They were well-engaged in the market, but they spoke of little choice (especially in the strata market). Many feared financial devastation if their uninsured property was severely damaged by a disaster. Some home owners said that building insurance was a condition of their mortgage, and that they had no choice but to insure. Owners of strata properties also raised concern that they were bound by law to insure their building.

Forums well-attended by strata residents raised concern about the commercial relationships between strata managers, brokers and insurers, particularly regarding commissions paid to strata managers. Commissions were criticised for being percentage-based rather than a fixed fee.

Participants expressed concern that insurers had inadequate claims handling processes, with inflated cost of repairs and insurers preferring (or requiring) repairs to be done by their own (more expensive) tradespeople rather than local tradespeople.

### 3.2 Regional themes

Of the towns we visited, the level of participants' anxiety was particularly evident in Broome and Karratha, where residents spoke of receiving renewal notices in the order of \$9 000 to \$12 000 per year—and sometimes even higher. Many of these residents stated they achieved substantial reductions by directly negotiating with the insurer. They explained the financial burden of high insurance cost is

---

<sup>2</sup> [www.accc.gov.au/insurance](http://www.accc.gov.au/insurance)

exacerbated by significant falls in the value of their properties across the Pilbara. Residents wanted to have options such as insuring their properties at market value or even insuring just against the amount owed on a mortgage (so that at least they could clear their debt rather than rebuild if disaster struck), but said insurers required them to insure at replacement values (around the value of the properties at the height of the boom). They spoke of governments wanting people to live and work in regional Australia, but that the cost of living there was becoming prohibitive.

Participants in north Queensland forums, particularly Rockhampton and Mackay, discussed concerns about flood mapping and zoning. They discussed a perceived lack of consistency between council and state government flood mapping and some considered that flood mapping may be overstating the risks. They were particularly concerned that zones are subject to change, giving little certainty to the community. They were also concerned about new developments being proposed along a river or close by the sea, which they suggested had higher potential to flood. Maintenance of waterways (for example, river dredging) and flood drainage systems (for example, removal of foliage build up) was also raised in north Queensland forums.

Participants in both Alice Springs and Darwin, raised their concern about the effect of the privatisation of the Territory Insurance Office (TIO), claiming this has been associated with increasing prices, decreasing customer service and poor claims experience.



## 4. Consultation on our issues paper

We published an issues paper on 24 October 2017 and extended the closing date for submissions until 19 January 2018. The issues paper invited comments from interested stakeholders on the range of issues to be considered by the inquiry (as set out in Section 2 of this report). We also published a plain language version of chapter three for consumers and made this available as an online questionnaire on the ACCC's Consultation Hub.

We received over 280 submissions during a 16 week consultation period.<sup>3</sup> A high proportion of these came from local residents and property owners (approximately 259). Key stakeholder groups including insurers, brokers, local councils, regional development organisations, strata management groups and consumer representative groups collectively accounted for the balance of submissions (approximately 26). Submissions are published on our website.<sup>4</sup>

The discussion of key themes presented here is illustrative of the diverse views and experiences that have been shared by the various stakeholder groups. The next stage of the inquiry is for us to examine more closely the different perspectives and the bases for these.

### 4.1 Local residents and property owners

In addition to making submissions via our online consultation hub, individuals wrote directly to share their experiences and stories, often sharing additional documents, such as copies of insurance renewal notices, records of past insurance premiums and copies of correspondence with insurers and brokers about complaints, disputes and quotes. We observed a high degree of consistency with themes raised by participants at our forums.

Individuals consistently expressed their concern about rising insurance prices—several sent us their notes of year-by-year changes. Just as individuals expressed their confusion about insurers not being able to explain the reasons for price rises, they also spoke of being confused about how insurers could often offer a better or different quote when they called to negotiate a renewal notice or online quote. They said insurers should be required to explain prices and price changes. Some also questioned what they saw as a considerable variation in the pricing of comparable products from different insurers.

As with the forums, many individuals said they had no choice but to adjust their coverage levels and increase their excess to improve affordability. People discussed their efforts to negotiate, switch insurers and use a broker, but that this only helps so much. Some individuals reported success using brokers to obtain insurance in an otherwise difficult-to-insure area or postcode, and others provided us with examples of their broker's efforts to obtain a range of quotes for them, which showed that some or most of the insurers approached declined to provide a quote.

Some property owners discussed their efforts to improve the resilience of their property but questioned whether their efforts are recognised by insurers or reflected in premium reductions. Some said insurers should inspect or visit individual properties to make a more informed assessment as to the risk of the property.

Flood insurance was raised in many submissions, with some individuals saying they wanted flood insurance but couldn't afford it and others saying they didn't want to pay for it but couldn't opt out. Some told us they questioned the accuracy of flood zone mapping used by their insurer, citing the physical location of their property being on a hill, or above sea level.

Some people wrote to us about their experience with claiming. Some mentioned positive claims experiences, but others detailed the difficulties they had experienced when dealing with their insurer, raising concerns about aspects of the process, such as timeliness of assessments, timeliness of commencement of repairs and quality of repairs.

---

<sup>3</sup> Numbers are approximate. A small number of people made two separate submissions, made a supplementary submission, or responded to both the online questionnaire and by email.

<sup>4</sup> [www.accc.gov.au/insurance](http://www.accc.gov.au/insurance)

Responses to our online consultation indicated that customer service is important and an insurer's claims handling reputation is another key consideration in the insurance decision making process.

## 4.2 Consumer representative and advocacy groups

Both the Financial Rights Legal Centre (Queensland) and the Consumer Action Law Centre (Consumer Action) propose various policy reforms that could improve the functioning of the insurance market. In particular, they propose a need for greater transparency in premium pricing and better disclosure of information more generally. They advocate for the removal of the exemption of insurance from unfair contract terms laws, which was also the subject of a dedicated piece of research separately published by Consumer Action.<sup>5</sup> They also both submit that consumer data management needs to be improved, and for insurers to be open about how they are using data. Consumer Action also reinforces concerns about information asymmetries and remuneration structures between insurers and intermediaries.

Legal Aid Queensland shared a range of anecdotes comparable to those shared by participants at Queensland forums, such as unexplained premium rises that are not tied to an (evident) increase in risk and seemingly inflated building replacement costs. Other examples include complaints they have heard about the behaviour of, and remuneration structures between, strata managers and brokers.

## 4.3 The Financial Ombudsman Service

The Financial Ombudsman Service (FOS)<sup>6</sup> discusses its experience with resolving disputes involving home, contents and strata insurance in northern Australia and what it sees as some of the issues associated with remote locations and/or exposure to extreme weather events. For example, delays in repairing damage after extreme weather events which can be due to widespread damage, limited availability of resources and ongoing adverse weather conditions. In areas where extreme weather events occur, buildings need to meet additional requirements which can be the subject of disputes. FOS also hears complaints about the overuse of cash settlements by insurers to settle claims. While FOS suggests most policies provide the insurer with discretion to pay out a claim, FOS discusses it can cause detriment when the settlement is based on quotes provided by panel builders, or leave consumers managing complex repair jobs, for example. A fourth issue mentioned by FOS was that in some cases where a property is impacted by a significant weather event, the insurer will seek to argue that the damage occurred as a result of pre-existing issues with the property.

## 4.4 Owners corporations and organisations for strata management

We received submissions from the Strata Community Association Queensland (SCAQ), Australian Resident Accommodation Managers' Association (ARAMA), the Owners Corporation Network (OCN) and several other submissions from private individuals who are members of, or who have interests in, owners' corporation groups.

Submissions from these groups and individuals typically raise concerns about what they say are significant affordability issues in obtaining strata cover in northern Australia, particularly northern Queensland. Submissions talk about a general unwillingness among insurers to provide competitive quotes, primarily due to location and the number of recent natural perils that have passed through the region. Submissions consider the legislative requirements applying to strata properties may constrain the ability for individuals or brokers to organise tailored insurance coverage at a lower cost. The removal of stamp duty and other taxes on insurance were commonly flagged as opportunities to reduce premiums.

ARAMA, OCN and several individual submissions raised concern that strata managers and brokers may benefit from insurance premium increases due to their commission-based remuneration structure, with ARAMA and OCN suggesting that it is not uncommon for body corporate managers to receive a commission of up to 30 per cent of the total cost of insurance. They suggest that moving from a

<sup>5</sup> Consumer Action Law Centre (February 2018), 'DENIED: Levelling the playing field to make insurance fair'

<sup>6</sup> The newly established Australian Financial Complaints Authority will take over the functions of FOS by November 2018.

percentage based commission to a fixed fee structure would lessen the chance of a conflict of interest and avoid inflating premiums.

Members surveyed by SCAQ, as well as several individual submissions, consider that the quality and transparency of insurance information supplied by insurers should be more improved. Submitters sought greater clarity on the factors impacting premium pricing (such as cyclone risk ratings) and noted a breakdown of insurance premiums would assist with this understanding.

## 4.5 Insurance brokers

The perspective of insurance brokers has predominantly been represented to the inquiry by the National Insurance Brokers Association (NIBA), however additional comments were separately contributed by smaller groups and several individuals involved in broking.

NIBA referred to previous findings of the Northern Australia Insurance Premiums Taskforce and the Australian Government Actuary, which found that during most of the 2000's, premiums in northern Australia did not reflect the true cost of risk. Industry has since corrected pricing anomalies and premiums are now commensurate with risk.

Like local community groups, NIBA considers that there is little effective choice of insurers, suggesting this could be driven by the nature and scale of losses sustained over the past 15 years. NIBA considers that there are no technical barriers to new insurers entering the market (except potentially in the strata market), rather the unwillingness of insurers to underwrite in high-risk regions is simply a rational commercial decision. NIBA suggests that anecdotally, supplying insurance in north Queensland is not very profitable.

NIBA proposes a greater role for mitigation and improving building resilience in vulnerable regions as a way to address high premiums and calls for the abolition of stamp duty on insurance. NIBA does not consider that changes to commission structures for brokers will do much to resolve fundamental concerns about affordability or availability of insurance.

NIBA and other submissions from brokers comment on the accessibility of information available to consumers to support their insurance decisions and questions whether key factsheets, websites and product disclosure statements are helping consumers understand their options and make good decisions.

## 4.6 Local councils and regional development

We received submissions from several local governments and councils, including the Cairns Regional Council, Mackay Regional Council and the Town of Port Hedland. A number of other organisations with an interest in town development and/or disaster mitigation and management also made submissions, for example Regional Development Australia Pilbara, the Greater Whitsundays Alliance and Floodplain Management Australia.

These groups raised concerns that insurance premiums may not be priced commensurate with risk and that some consumers were over insuring, leading to unnecessarily high premiums. Some submissions questioned the rationale for high (and rising) costs, given higher building standards across northern Australia and a lower claims occurrence in recent years. On this basis, there were calls for insurers to improve the transparency of their pricing decisions. Councils in Queensland suggested they too are adopting new approaches to managing their rising insurance costs, for example by collectively managing some risk exposures through a self-insurance scheme.

Several groups raised concern over what they suggest is a growing level of underinsurance in some regions. One council said it was encouraging its residents to review and challenge insurance premium quotes, rather than to adjust insurance levels to manage premium costs.

Community concerns around the lack of choice was a common thread, with some submissions citing residents' difficulty in obtaining insurance, either due to affordability concerns or insurers

not offering coverage. There was also mention of limited ability to tailor insurance to suit individual building situations.

Councils shared examples of pre-disaster preparation projects they have undertaken and the positive impact of these works on insurance premiums. Councils also discussed mitigation initiatives, such as running resilience scorecards which aim to improve community awareness and preparedness for natural disasters, but questioned how mitigation was recognised or supported by insurers. Councils also discussed opportunities to work with industry to improve insurance affordability through the provision of more granular, accurate data and by ensuring that land use planning takes into account natural hazard risks (or the risks are mitigated against).

Other key points raised include a review of existing taxation arrangements to improve affordability and issues with the accountability of insurance companies (including timeliness of claims handling, assessment of damages/repairs quotes and the workmanship of contractors employed to complete repairs).

## 4.7 Insurance industry

We received submissions from the Insurance Council of Australia (ICA)—the peak body representing the general insurance industry in Australia—and four individual insurers (Allianz, IAG, RACQ and Suncorp).

Submissions from this broad group generally acknowledge that premiums have risen in northern Australia over the past decade and that fewer insurers have the capability to operate in this region. Reasons put forward are higher exposure to (and claims from) natural disasters, higher cost of servicing claims in these areas, the cost of flood cover in northern Australia, the transition from risk rating at a postcode level to risk rating at an address level, and developments in catastrophe risk modelling. Several industry submissions discuss reinsurance, generally not raising it as a significant factor in the affordability of insurance premiums, noting it remains available and the market is competitive as domestic reinsurers compete with offshore reinsurers and financial market alternatives to reinsurance.

Industry submissions essentially characterise the situation as a problem of risk, rather than one of price, and generally propose mitigation and resilience initiatives as key to addressing affordability issues. They do not consider there is a lack of competition. The ICA says, contrary to some perceptions, insurers have not left the market in northern Australia and are not generating large profits. Rather insurers are operating with modified underwriting requirements, avoiding risks considered beyond their capacity to service and operating in a difficult investment environment with 'satisfactory' financial performance. The ICA submits that, despite this, consumers in northern Australia do have a strong choice of insurance providers, the market is competitive and premiums reflect risk.

The ICA estimates that households in northern Australia pay a median of around \$1350 per year for their home building insurance, which is more than double the estimated \$575 per year their southern counterparts pay for comparable insurance.<sup>7</sup> The ICA explains this could be due to factors such as the age of northern properties, greater exposure to cyclone/flood risks, inclusion of flood cover and significant increases in building/rebuilding costs. ICA also discusses other factors, such as the escalation of prudential requirements for insurers and more accurate price signals due to the broad adoption of risk-based pricing incorporating more sophisticated data.

The ICA canvassed a range of policy initiatives to address concerns about insurance affordability and availability, including reforms to product transparency and disclosure, consumer access to hazard data/information, community awareness programs, mitigation and structural resilience initiatives and removal of government taxes, duties and levies on insurance products. The ICA indicates a willingness to work with government to incorporate an unfair contract terms regime into the *Insurance Contracts Act 1984*, if this reform option is adopted.<sup>8</sup>

---

<sup>7</sup> The ICA notes that industry data to produce these estimates have been normalised to a consistent sum-insured and excess. Normalised premiums refer to premiums that have been adjusted as if all policies have been purchased by all policy holders for a consistent \$350 000 sum-insured and \$500 excess.

<sup>8</sup> Minister O'Dwyer, Media Release of 18 December 2017 indicated the government support the Senate Committee's recommendation to extend the unfair contract terms provisions to contracts of insurance and will release proposals for this in early 2018. <http://kmo.ministers.treasury.gov.au/media-release/120-2017/>

Submissions from individual insurers generally align with the position and sentiment of the ICA's submission, however each insurer offers additional comments and policy proposals based on their own perspectives as insurers in northern Australia. For example, Allianz discusses opportunities for industry and government to work together practically, recommending direct government intervention in the market such as through a government-backed reinsurance facility to reduce premiums in high cyclone and/or flood risk regions. IAG discusses opportunities for digital innovation to enhance the general competitiveness of the industry and increase efficiencies across the value chain. IAG also questions whether land use planning is adequately incorporating natural disaster risk. Suncorp draws on its *Protecting the North Policy Paper* and discusses the imperative of a strategy focused on private and public mitigation.

## 4.8 Actuaries

The Actuaries Institute of Australia expressed concerns about the availability and affordability of insurance in northern Australia. The Institute observed that the significant variability in actual claims costs (due to cyclical and random nature of natural peril events) and the concentration of cyclone risk (which exist exclusively in northern Australia) are some of the major drivers of change to aggregate premium levels.

A key part of the submission focused on the risk mitigation component of insurance pricing and noted that where fundamental hazard risk can be appropriately addressed at both the property (such as building resilience through retrofitting activities related to roof, walls and windows) and regional level (such as flood levees and enhanced drainage networks), long term sustainable reductions in premiums can be achieved for consumers.

The Institute also highlighted other opportunities and proposed initiatives that industry and government could consider, such as 'indirect' financial assistance for significant capital investments in property level works, co-ordinated flood management works and the possibility of retreat programs where very vulnerable properties are 'bought-back'.

## 5. Early observations about trends in insurance premiums

We have obtained information from eight insurers (the Insurers) using our compulsory information gathering powers. These powers are available to the ACCC under section 95ZK of the CCA. This has allowed us to gain unique insight into the home, contents and strata insurance markets by obtaining information that past reviews of insurance markets have not been able to access.

The Insurers are:

- AAI Limited (Suncorp)
- Allianz Australia Insurance Limited (Allianz)
- Commonwealth Insurance Limited (CIL)
- Insurance Australia Limited (IAL)
- QBE Insurance (Australia) Limited (QBE)
- RACQ Insurance Limited (RACQ)
- Westpac General Insurance Limited (Westpac)
- Youi Pty Ltd (Youi).

We understand these insurers underwrite the vast majority of home, contents and strata insurance in northern Australia.

By April 2018, we had received a large volume of documents from the Insurers. The documents we required are wide-ranging and provide information about the structure and operation of their business, including:

- how prices are set and the cost components of premiums
- how premiums, excess levels, sums insured, claims expenses and number of policies in northern Australia compare to other parts of Australia
- how insurers decide whether to supply insurance products in northern Australia
- the contractual arrangements that may be used between insurers and related bodies corporate, insurance intermediaries, reinsurers and repair and or replacement providers
- insurers' financial performance over the 10 year period.

While a full review and analysis of these documents will take some months, one of our first priorities has been to develop a more detailed understanding of the insurance markets in northern Australia and trends in insurance premiums. Based on our review so far, we can make some preliminary observations about the availability of insurance in northern Australia, the number of suppliers, current premiums, and how prices have changed over the last ten years.

These preliminary observations are based on the data we have received from insurers as part of the inquiry. As noted, the Insurers supply (or underwrite) the vast majority of the home, contents and strata policies in northern Australia. However, there may be other insurers underwriting policies in the region which our analysis does not reflect. The Insurers also supply the large majority of home, contents and strata policies nationally. As a result, we consider that the analysis outlined below should provide a representative picture of the insurance markets.

The preliminary analysis in this report focuses on market size, concentration and premium trends. It does not consider all factors that will affect premiums, such as the expected number and cost of claims across northern Australia. We have collected claims data from insurers and we anticipate our November 2018 report will consider these issues in detail.

The observations discussed may be revised in subsequent reports based on further data collection and analysis.

## 5.1 Markets for home, contents and strata insurance

### Key observations

- While northern Australia makes up only 5 per cent of the policies for home and/or contents insurance, it accounts for about 10 per cent of premium revenue.
- The strata insurance market is considerably smaller, and more concentrated, than the home and contents insurance market in northern Australia.
- Across most of northern Australia there are a number of insurers providing home and contents insurance.

### The size of the markets

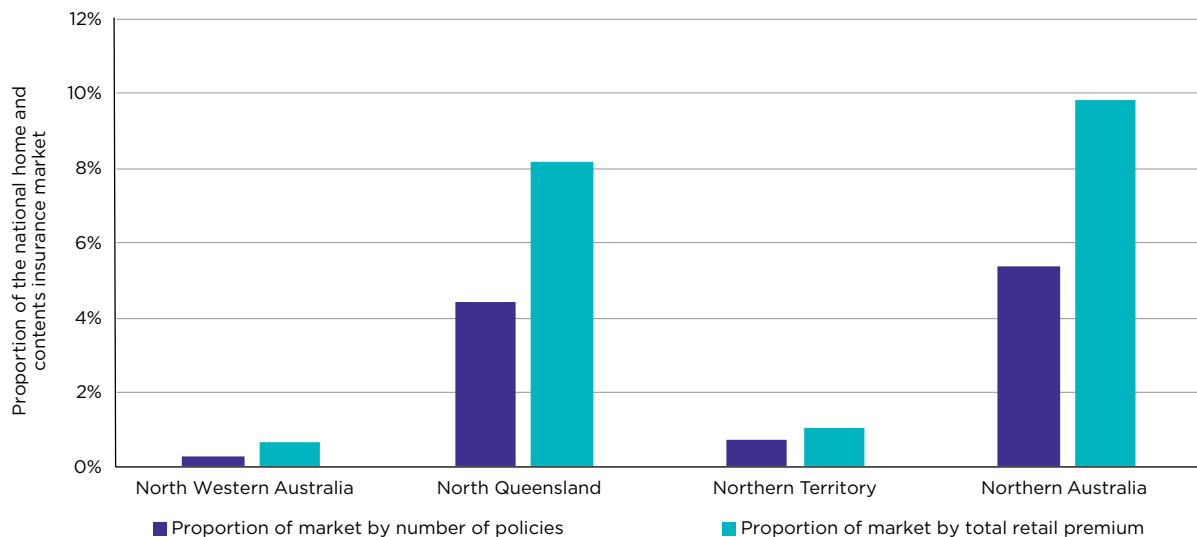
This section looks at the size of markets for home and contents insurance products, namely products providing home (building) insurance, contents insurance, and combined home and contents insurance. Strata insurance is considered separately below.

Home and contents insurance products in northern Australia form a relatively small share of the national totals for these products. In 2016–17 there were around 440 000 home and/or contents insurance products in northern Australia, representing about 5 per cent of the approximately 8.3 million supplied nationally.<sup>9</sup> Of these, 82 per cent are in north Queensland, 13 per cent in the Northern Territory, and 5 per cent in north Western Australia.

However, in terms of total premium, northern Australia represents a larger share of the national total.<sup>10</sup> In 2016–17 in northern Australia, the Insurers collected approximately \$670 million in premium, which is nearly 10 per cent of the estimated \$6.8 billion paid to them by consumers nationally.<sup>11</sup>

Figure 5.1 illustrates how these two measures of market size compare across northern Australia.

**Figure 5.1—Size of northern Australia home and contents insurance markets (2016-17)**



Source: ACCC analysis of data supplied by the Insurers.

<sup>9</sup> There may be slightly more than 440 000 home and/or contents Insurance policies in northern Australia, as we did not collect data from all suppliers in the area. However, this figure is likely very close to the total number as we received data from insurers supplying to the vast majority of the market. In addition, our estimate of 8.3 million policies nationally is based data provided by the Insurers. We also understand that they supply the majority of the market nationally, therefore 8.3 million policies will be a close approximation to the total size of the market.

<sup>10</sup> Total premium is the total amount paid by consumers for the relevant insurance products, exclusive of GST and state and territory levies and duties.

<sup>11</sup> Our estimate of \$6.8 billion is based on the total premium received by the eight insurers who provided information, which make up approximately 94 per cent of the market.

While northern Australia does represent a larger part of home and contents insurance markets by premium, this does not mean that northern Australia is necessarily more profitable for insurers. Profitability analysis requires an assessment of claims and other costs, which we are still undertaking.

The strata insurance market is considerably smaller than markets for home insurance both in northern Australia and nationally. In 2016–17 we estimate there were approximately 180 000 strata insurance policies provided by the Insurers nationally. Of these, approximately 7500 (or 4 per cent) were in northern Australia. The majority of the policies were provided in north Queensland (6000 policies), followed by the Northern Territory (1400 policies) and only 130 in north Western Australia.

Similarly to home and contents insurance markets, the northern Australia strata market is a larger portion of the national market when measured in terms of total premium. Northern Australia makes up approximately 8 per cent of the national strata market by total premium, or \$38 million of the \$410 million of premium collected nationally.

## How many insurers offer home, contents and strata insurance?

During our public consultation, many local residents and property owners told us that they had limited choice of insurers in their area. However many also told us that shopping around and comparing policies often helped them find a cheaper policy. The majority of home and/or contents policies in northern Australia are supplied (or underwritten) by the eight Insurers who have provided information to the ACCC as part of the inquiry.<sup>12</sup>

All eight of the Insurers operate in north Queensland, seven of these eight operate in north Western Australia and six in the Northern Territory. RACQ appears to only supply insurance in Queensland, and Youi does not provide home and contents insurance in the Northern Territory.

Despite the number of insurers operating in these markets, in 2016–17 the north Queensland and the Northern Territory markets each have one insurer that holds a significant proportion of the total premium for the region. Suncorp has a share of around 41 per cent of total premium received by the Insurers in north Queensland, and Allianz a share of about 56 per cent in the Northern Territory.<sup>13</sup> However, we observed a more even spread in market share in north Western Australia and the rest of Australia<sup>14</sup>.

---

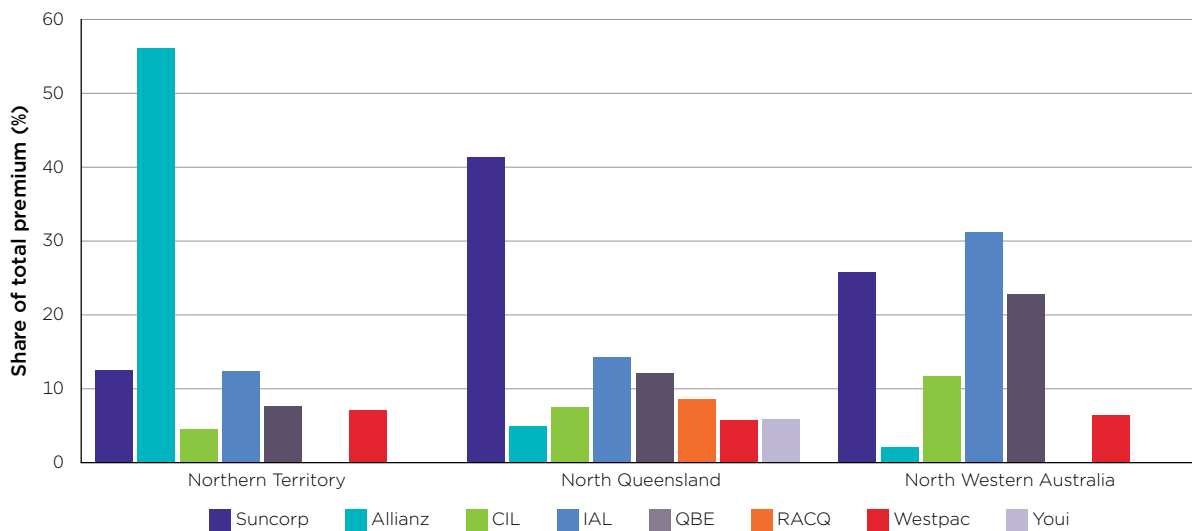
<sup>12</sup> This is based on currently available information. We note that in some areas there may be other insurers underwriting home, contents and strata insurance in northern Australia, but they have only a minor share of the market. In this section we have measured each insurers' share of the market for all home and/or contents insurance products, by comparing their share of total premium. Comparing total premium means that we do not need to make adjustments for the proportion of combined and standalone (i.e. just home, or just contents) policies provided.

<sup>13</sup> Allianz's large market share in the Northern Territory respectively, is at least in part, likely attributable to its acquisition of the state operated Territory Insurance Office. Similarly, it is also possible that Suncorp's market share in north Queensland is attributable, at least in part, to its historic position as the Queensland Government Insurer.

<sup>14</sup> These observations are based on share of total premium received by the Insurers. It does not account for policies provided by other Insurers. However, as noted above, we understand the Insurers provide the vast majority of home and contents policies in northern Australia.



**Figure 5.2—Insurers’ share of total premium for home and/or contents insurance products in northern Australia regions (2016-17)**



Source: ACCC analysis of data supplied by the Insurers

Compared to home and contents insurance markets there appear to be fewer insurers providing strata policies in northern Australia. In 2016-17:<sup>15</sup>

- In north Queensland five of the Insurers supplied strata insurance, with two insurers collecting an estimated 67 per cent of total premium.
- In north Western Australia four of the Insurers supplied strata insurance, with one holding approximately 44 per cent of total premium.
- In the Northern Territory four of the insurers supplied strata insurance, but one held 83 per cent of the total premium.

It is too early to draw any conclusions about the state of competition in northern Australia insurance markets. While a small number of players holding a large market share can indicate a lack of competition, we are still investigating the basis for these trends and the state of competition in these markets.

### How many ‘brands’ of insurance are there?

While there are only between six and eight main insurers supplying home and contents insurance in northern Australia, these insurers supply home and/or contents insurance to consumers in northern Australia through 45 brands. The average number of home and/or contents insurance brands in each postcode level ranges from 23 brands in north Queensland, 20 in north Western Australia and 18 in the Northern Territory. Across northern Australia, strata insurance is sold through 12 different brands.

The number of brands used by the insurers to sell insurance can make it look like there are more suppliers than there actually are.<sup>16</sup> However our analysis also suggests that premiums across each individual insurers’ brands can vary, suggesting that insurers’ use of brands may be leading to a greater range of products for consumers.

Appendix D lists brands through which each of the eight insurers supply insurance to consumers.

<sup>15</sup> Figures here are based on information provided by the Insurers, who we understand supply the vast majority of the market in northern Australia.

<sup>16</sup> The Productivity Commission observed that the number of brands used by insurers creates the illusion of more competition than actually exists in the general insurance market. See Australian Productivity Commission, *Competition in the Australian Financial Systems—Draft report*, January 2018.

## Is insurance offered all over northern Australia?

Some local residents and property owners expressed concern that it was hard to get insurance in their area. Our analysis so far shows there are only three postcodes across northern Australia with fewer than four insurers currently supplying insurance, being Telfer (6762) and Nullagine (6758) in Western Australia and Corfield (4733) in Queensland.<sup>17</sup> All are remote inland communities with populations around 500 or fewer people. This is relatively consistent over the past ten years. However, further analysis needs to be done to consider the number and types of policies each insurer is offering across the region, and the reasons why insurers will not supply certain areas.

## 5.2 Insurance premiums in northern Australia

### Key observations

- In 2016–17 the average annual premium for combined home and contents insurance in northern Australia was \$2000, which is nearly double the average for the rest of Australia. Average premiums in north Western Australia were the highest at approximately \$2700 per year. Strata insurance premiums in northern Australia were more than double the price in rest of Australia.<sup>18</sup>
- Premiums for home and contents insurance vary significantly across northern Australia. However, premiums, and premiums per sum insured, for the vast majority of the region are higher than average for the rest of Australia. The areas with the highest premiums per sum insured are concentrated in the Pilbara region in Western Australia, Darwin and central Australia in the Northern Territory, far north Queensland, and the coastal regions north of Queensland.
- Between 2007–08 and 2016–17, average combined home and contents premiums have increased by approximately 23 to 67 per cent in northern Australia, and by 16 per cent in the rest of Australia.
- During the same period, strata insurance premiums increased substantially in north Queensland and north Western Australia. Premiums per sum insured in these regions rose by between around 60 and 80 percent, but remained relatively flat in the rest of Australia.
- In 2016–17, the Insurers' premiums for combined home and contents insurance differed more in northern Australia than in the rest of Australia. We estimate that average premiums between insurers in northern Australia can vary by as much as \$3.40 per \$1000 insured in northern Australia, compared to \$0.90 per \$1000 insured in the rest of Australia.

### How high are premiums for home and contents, and strata insurance?

Home and contents insurance is generally more expensive in northern Australia than in the rest of Australia. For example, many consumers have expressed concerns that certain postcodes attract a higher premium, and this has been particularly noticeable after a natural catastrophe event. Others have also questioned why insurance premiums were high compared to premiums paid by consumers in other parts of Australia that also may experience natural catastrophes, such as bushfires or floods.

This section focuses on premiums for products that combine home (building) and contents insurance into a single product. Our preliminary analysis shows similar trends for building only and contents only policies to which we have observed for combined policies. That is, these products have higher prices in northern Australia and premiums have increased over the past ten years. Home only and contents only products will be considered in more detail in our November 2018 report.

Premiums in this section are also exclusive of GST and other state duties and levies (such as stamp duty and fire service levies). This means that the average premium figures discussed here will be lower than the average retail premiums consumers actually pay. However, as there is variation in the duties and levies applied to insurance premiums across states, excluding these values also means that premium

<sup>17</sup> Nullagine is 256km south-east of Port Headland, Telfer is 450km east of Port Headland and Corfield is 800km west of Mackay.

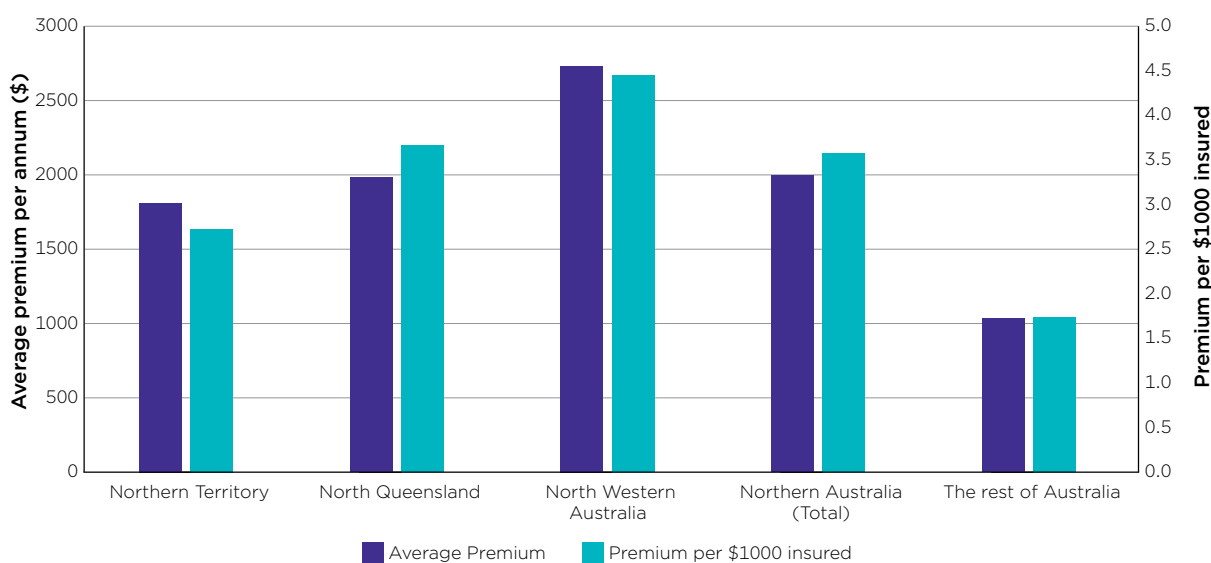
<sup>18</sup> These figures represent the change in the average premium per sum insured for the region, and therefore take into account of changes in the amounts for which properties are insured.

data across the different states is more comparable. Our November 2018 report will consider the effect of duties and levies, in particular stamp duty, in more detail.

In 2016–17, the average annual home and contents insurance premium in northern Australia was approximately \$2000, which is double the average premium reported for the rest of Australia at \$1000 per year.<sup>19</sup> Average premiums vary across the region, with north Western Australia with the highest average premiums at \$2700 per year.

In order to take into account differences in the value of property insured between regions, we have also examined premiums per \$1000 of sum insured.<sup>20</sup> The trends in premiums per sum insured are similar to those for simple average premiums, as illustrated in Figure 5.3.

**Figure 5.3—Average annual premium and premium per \$1000 sum insured for combined home and contents insurance (2016–17)**



Source: ACCC analysis based on data provided by the Insurers

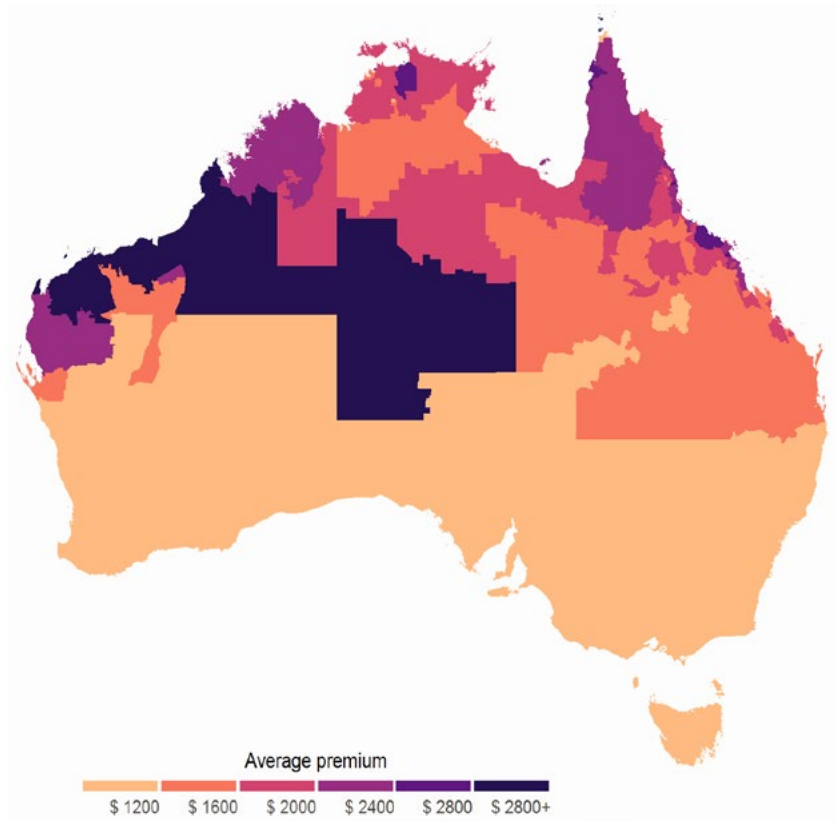
We have also looked at premium trends across northern Australian postcodes, to get a better idea of how premium levels vary within each region of northern Australia.<sup>21</sup>

<sup>19</sup> This is the average across combined building and contents insurance products, provided by the Insurers, and we have not made adjustments for sum insured or excess levels. Actual premiums paid by consumers will vary considerably around average figures and our November 2018 report will consider this further. We also note that these averages do not take into account the relatively small number of policies offered by insurers who have not provided information to the ACCC.

<sup>20</sup> Premium per \$1000 of sum insured is calculated by dividing the total premium in the region by the total sum insured in the region and multiplying by 1000.

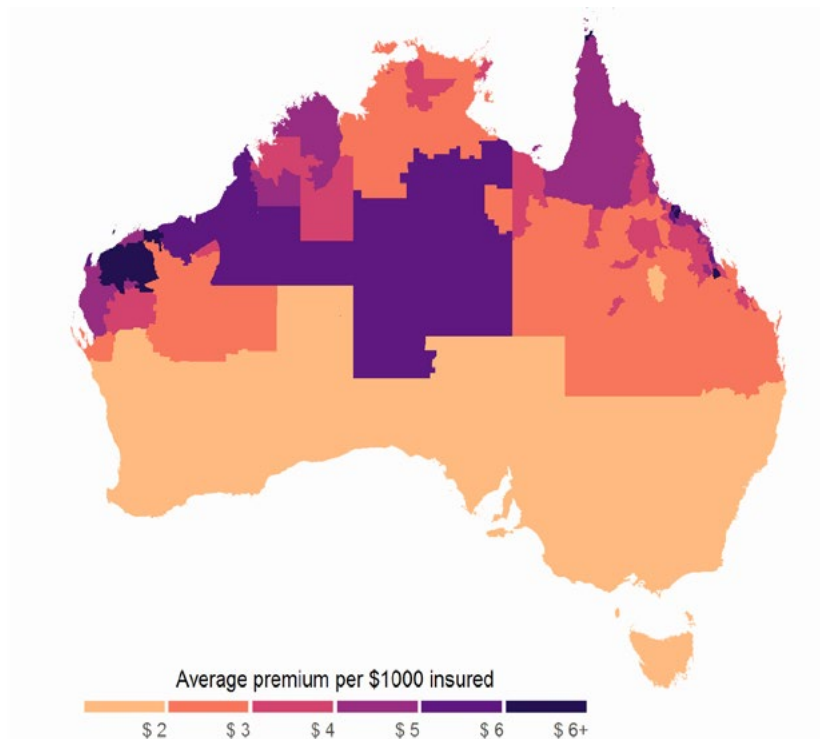
<sup>21</sup> Figures for most regions outside of northern Australia are calculated as the average for the whole state. For Queensland and Western Australia figures are calculated as the average for the portion of the state outside of northern Australia.

Figure 5.4—Average premium for combined home and contents insurance in 2016-17



Source: ACCC analysis based on data provided by the Insurers.

**Figure 5.5—Average premium per sum insured for combined home and contents insurance products in 2016-17**



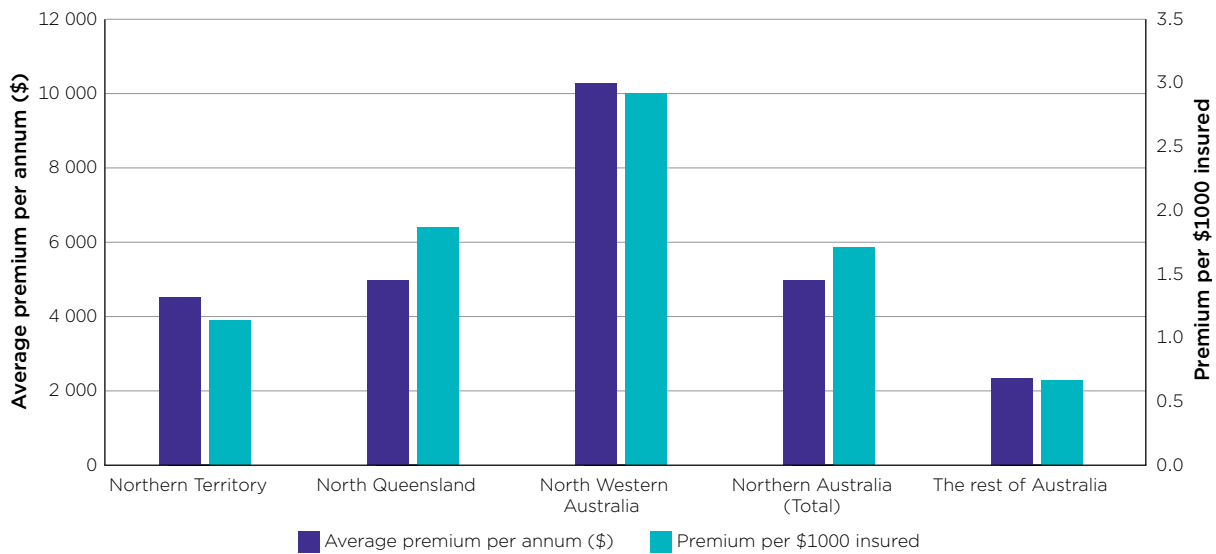
Source: ACCC analysis based on data provided by the Insurers.

Figures 5.4 and 5.5 illustrate that premiums can and do vary significantly across northern Australia. It also shows that for most areas in northern Australia average premiums, and premiums per sum insured, are considerably higher than they are in the rest of Australia. In Queensland, the highest premium regions are focused on the coast of North Queensland and far north Queensland. The more remote inland regions of north Western Australia and the Northern Territory are also high. In the Northern Territory, Darwin prices also appear to be higher than surrounding areas. The Pilbara region in Western Australia, particularly the zone between Exmouth and Karratha also appears to be experiencing particularly high premiums.

Strata insurance is also more expensive in northern Australia than it is in the rest of Australia. In 2016-17 average strata insurance premiums in northern Australia were more than twice that in the rest of Australia, at \$5000 per year compared to \$2300 per year.<sup>22</sup> Again, the north Western Australia region is the highest at about \$10 000 per year, which is over four times the average premium in the rest of Australia. However, there were only 130 strata insurance policies provided by the Insurers in north Western Australia in 2016-17. These trends are similar when the sums insured are taken into account, as illustrated in Figure 5.6 below.

<sup>22</sup> We note that this is based only on the data we received from insurers, and may not incorporate all strata providers operating in the markets. However, we understand that the insurers who provided data make up the majority of the market.

**Figure 5.6—Average premium and premium per \$1000 insured for strata insurance (2016-17)**



Source: ACCC analysis based on data provided by the Insurers.

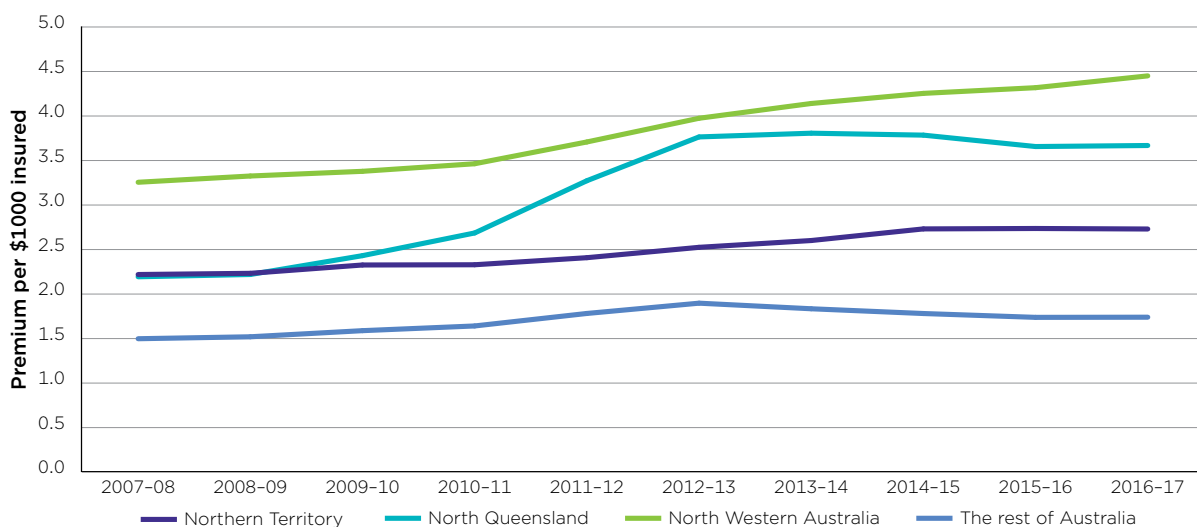
### Are insurance premiums rising?

A significant concern for local residents and property owners during our public consultation was the high and rising insurance premiums. Industry acknowledged that prices have risen, as pricing methodologies and risk assessments have developed over time.

The information provided by the Insurers so far confirms that average premiums for home and contents insurance have increased over the past ten years, but to differing degrees depending on the region.

Between 2007-08 and 2016-17, average premiums for combined home and contents insurance products increased by between 130 and 180 per cent in northern Australia, and about 91 per cent for the rest of Australia. However, when changes in the sum insured are taken into account, the increase in premiums is less dramatic. Between 2007-08 and 2016-17, the average premium per \$1000 insured increased by between 23 and 67 per cent in northern Australia, and around 16 per cent in the rest of Australia. The change in premium per sum insured is shown in Figure 5.7.

**Figure 5.7—Average premium per \$1000 sum insured for combined home and contents insurance between 2007-08 and 2016-17**



Source: ACCC analysis based on data provided by the Insurers.

The average premium per sum insured has increased most in north Queensland and then north Western Australia, with north Queensland in particular experiencing a sharp increase between 2010-11 and 2012-13. In contrast, the increases in premiums per sum insured in the rest of Australia over the period have been relatively small.

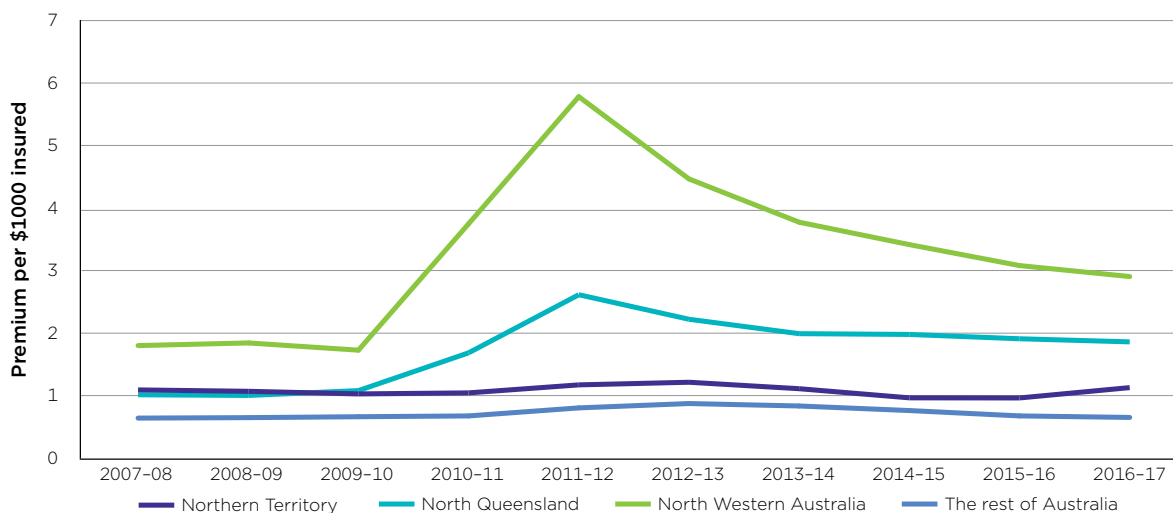
The increase in the average premium, and the premium per sum insured in the Northern Territory also appear to have been lower than for the rest of northern Australia. However, this data does not include policies offered by the TIO before it was acquired by Allianz. As the TIO held a significant share of the market, it is possible that pre 2014-15 figures for the Northern Territory do not reflect the actual level of prices available here.

It is important to note that the figures reported here are averages across a region. Some individual policy holders will have faced significantly higher premium increases over time, while others will have experienced smaller rises, or even possibly reductions.

Similarly, in many areas, there has also been a significant increase in the average basic excess amount payable under home and contents policies. Consumers may choose a higher basic excess amount (thereby taking on more risk) as a way to reduce the headline premium payable. Our November 2018 report will consider premium and excess changes at a more disaggregated level.

Strata insurance premiums have also increased over the last ten years. Figure 5.8 shows how the average premium per sum insured has changed between 2007-08 and 2016-17.

**Figure 5.8—Average premium per \$1000 insured for strata insurance between 2007-08 and 2016-17**



Source: ACCC analysis based on data provided by the Insurers.

Overall it appears that the average premium per sum insured in the rest of Australia has remained relatively stable over the last ten years, increasing by 1.6 per cent. Similarly, the premium per sum insured in the Northern Territory has also remained quite flat.<sup>23</sup> In contrast, premiums per sum insured in north Queensland and north Western Australia have increased more substantially. Over the ten year period, the premium for strata insurance per sum insured increased by 82 per cent in north Queensland, and 61 per cent in north Western Australia.

As noted above for home and contents insurance, these averages will not fully reflect the experiences of individual strata insurance policy holders within these regions.

In addition, while premiums per sum insured are significantly higher than they were ten years ago in both north Queensland and north Western Australia, the average premium per sum insured in these regions has decreased over the past five years, falling from a peak in 2011-12.

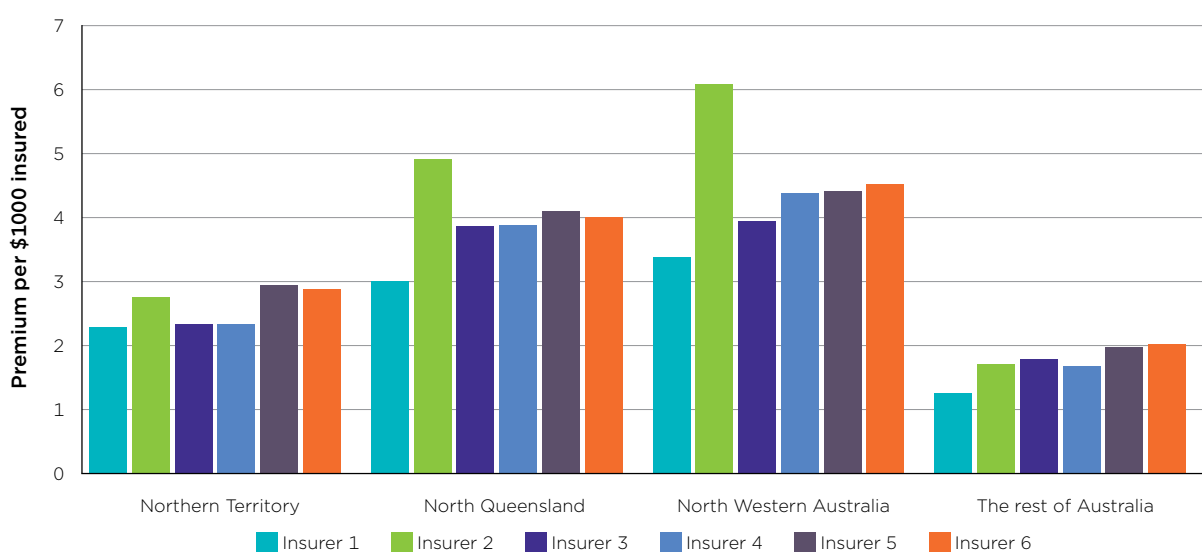
<sup>23</sup> We note that figures for the Northern Territory may not reflect actual changes, as pre 2014-15 data does not include the policies offered by the TIO.

## How do insurers' home and contents premiums compare?

In 2016-17 there was generally more variation between the Insurers' premium per sum insured for home and contents insurance in northern Australian regions than the rest of Australia, as illustrated in Figure 5.9. This trend was more pronounced in north Queensland and in north Western Australia. Comparing the highest and lowest, average premiums per sum insured:

- In north Queensland, the highest average premium per sum insured was double that of the lowest, with a range of \$2.50 per \$1000 insured.
- In north Western Australia, the highest average premium per sum insured was 2.5 times that of the lowest, with a range of \$3.40 per \$1000 insured.
- In the rest of Australia, the highest average premium per sum insured was 1.7 times that of the lowest, with a range of just \$0.90 per \$1000 insured.

**Figure 5.9—Average premiums per \$1000 sum insured for combined home and contents insurance (2016-17)<sup>24</sup>**



Source: ACCC analysis based on data provided by the Insurers

Differences in average premiums between insurers may be attributable in part to differences in the risk profiles of each insurer's customers. Further analysis of these matters is required before we reach more definite conclusions.

These trends echo comments we heard at the public forums and in submissions from consumers. Many consumers have raised issues with receiving particularly high quotes from insurers, particularly when renewing a policy but often they were able to obtain cheaper cover by shopping around. However, these figures represent the pricing of insurance policies that were actually taken up, and not simply quoted figures, so may not explain these comments.

<sup>24</sup> This figure only includes data for insurers that supply home and contents insurance across all regions in northern Australia.



## 6. Current focus of the inquiry

There is a substantial amount of work underway. By 30 November 2018, we will provide the Treasurer with a further report containing insights about the home, contents and strata insurance markets in northern Australia.

The November 2018 report will be important. It will explain to the people of northern Australia how we believe the home, contents and strata insurance markets are really working. It will also discuss any concerns or problems that we have identified so far and make our initial recommendations to government and industry about what we see as any opportunities for change.

We must also provide further reports by 30 November 2019 and by 30 November 2020. Our investigations and monitoring will continue beyond this year as we work to improve the fair working of the market.

As we make findings and recommendations over the next two and half years, we will pay particular attention to a range of key issues, some of which are directly drawn from the terms of reference, others which the community have demonstrated a need for further consideration as they are relevant to the inquiry. Throughout our inquiry, we expect to be able to shine more light on a range of important questions, such as the following.

### **How are insurers setting premiums in northern Australia?**

Understanding how premiums are being set, and how they have been set in the past, is an important part of our inquiry. Consumers and consumer groups are concerned that they don't understand how premiums are calculated, especially where they feel this is inconsistent with their own views of relevant risks.

- How are insurers setting premiums, taking into account technical assessments of risk as well as adjustments for other business reasons?
- Have insurers changed their approach to setting premiums in the past 10 years? Why, when and how did it change?
- How has profitability evolved in the past 10 years?
- How do insurers use hazard data, including flood maps, when setting insurance premiums? What are the sources of this data?

### **Are home, contents and strata insurance markets competitive?**

We are considering the nature and magnitude of barriers to insurers entering and being able to compete in northern Australia. Local residents and property owners have often told us they feel they have little choice of insurer where they live for the sort of insurance they need.

- How do insurers decide whether to supply insurance products in parts of northern Australia? Why might they expand, why might they exit the market?
- What is the level of competitive tension in northern Australia? Is a lack of competition leading to higher prices and poor outcomes for northern Australian consumers?
- Are there barriers to entry, expansion or exit in the supply of insurance in northern Australia? To what extent does the current regulatory framework contribute to those barriers?

### **What is the role of commissions and incentives?**

We are investigating the role and significance of commissions and other payments between insurers, intermediaries (such as brokers) and strata managers. This has been a point raised by a number of property owners living in strata properties and also some stakeholder groups that represent them.

- Are these payments transparent?
- What incentives do they provide and to whom?
- Are they working in the interests of consumers?

### **Are insurers communicating effectively with consumers about their insurance?**

The importance of consumers having access to clear, meaningful and timely information about their insurance products and options, continues to be raised by stakeholders in our consultation.

- How do insurers provide and communicate information to consumers to help them understand how their premiums are calculated and the reason for any price variations?
- Could insurers better help consumers understand how their actions might impact their premiums?
- How do insurers disclose information to consumers about their choice of policy?

### **How do insurers account for mitigation initiatives?**

Reducing the physical impact of catastrophes on private and public infrastructure is widely acknowledged as an imperative part of the plan to address concerns about insurance affordability. Our inquiry will not duplicate the work of others or the current work of the new National Resilience Taskforce, however there are concerns around mitigation initiatives that have been raised with us that we will consider as part of our inquiry.

- How are insurers taking into account private and public mitigation works when pricing insurance premiums?
- What are the incentives to encourage risk mitigation action?
- To what degree is/could hazard data (including flood maps) be used for community education, planning decisions and public mitigation initiatives?

### **Claims assessments, repairs and rebuilds**

Many residents and property owners who participated in our consultation indicated they had not made a claim. However of those that had, many told us of their frustration with the way their claim had been managed and resolved.

- How do insurers approach claims assessments?
- What relationships do insurers have with the third parties they engage when undertaking repairs and rebuilds?

# 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

A handwritten signature in black ink, appearing to read 'Scott Morrison', written over the printed name.

SCOTT MORRISON

Treasurer

# Appendix B. Map of Northern Australia

For the purposes of this inquiry, northern Australia has the meaning given in section 5 of the *Northern Australia Infrastructure Facility Act 2016*. This broadly corresponds with the Northern Territory, those parts of Western Australia and Queensland that are north of the Tropic of Capricorn and some areas just south of the tropic, including Carnarvon and Gladstone.



# Appendix C. Useful contacts for consumers

Through the consultation process many consumers asked us how they could resolve a dispute with their insurer.

All insurers with an Australian Financial Services License (AFSL) must have an Internal Dispute Resolution process. They must also be a member of the Financial Ombudsman Service (FOS). FOS is the only approved External Dispute Resolution scheme for general insurers in Australia. FOS is free for consumers to use. The newly established Australian Financial Complaints Authority will take over the functions of FOS by November 2018.

In addition, an insurer may choose to be a member of the Insurance Council of Australia (ICA) and subscribe to a General Insurance Code of Practice. The Code sets out the standards that member insurers must meet when providing services. It includes an internal complaints and dispute process with reasonable timelines. A list of subscribers to the Code can be found at: <http://codeofpractice.com.au/about-the-code/subscribers-to-the-code>

# Steps you can follow

## Home and contents insurance

### Contact Insurer

You should first contact your insurer or broker to discuss the complaint and what you would like the outcome to be. As part of the provider's Internal Dispute Resolution they will have a certain number of days to respond to your dispute. If the dispute remains unresolved you can escalate the complaint to the Financial Ombudsman Service.

### Lodge a dispute with Financial Ombudsman Service (FOS)

You can contact FOS on **1800 367 287** or online at **www.fos.org.au**.

You will need to ensure that:

- your dispute is a type the FOS can consider (retail general insurance policy, residential strata title insurance, small business insurance)
- your claim is for \$500 000 or less
- any compensation claim is for \$323 500 or less
- any compensation claim for general insurance broker disputes is \$174 000 or less.

If a dispute is not resolved by agreement, then FOS will issue a determination which is binding on the insurance company. This cannot be appealed but you can choose whether to accept the Determination.

### Consider your legal options

If you do not accept the FOS Determination or your dispute is outside of FOS jurisdiction, you may wish to consider taking the matter to your local state or territory tribunal or to court.

For further information about your dispute or taking your matter to court, you should obtain legal advice or contact the free legal service **Insurance Law Service** on **1300 663 464** or at **insurancelaw.org.au**.

## Strata insurance

### Dispute with a body corporate

If your dispute is in relation to the conduct of a body corporate or its authorised officers, there are separate avenues of complaint and dispute resolution. In the first instance you should raise the dispute with your body corporate company directly. If your dispute remains unresolved it can be raised through:

- Body Corporate and Community Management (BCCM) in **Queensland** (1800 060 119)
- Consumer Affairs in the **Northern Territory** (1800 019 319)
- State Administrative Tribunal (SAT) in **Western Australia** (1300 306 017).

## Other helpful agencies

### **Australian Securities and Investment Commission (ASIC)**

For information relating to consumer protection matters for financial products and services, including some contracts of insurance. This includes concerns regarding unconscionable conduct, misleading or deceptive conduct and false or misleading representations.

1300 300 630 or [www.moneysmart.gov.au/insurance](http://www.moneysmart.gov.au/insurance)

### **Australian Competition and Consumer Commission (ACCC)**

For information regarding how businesses should interact with each other, including concerns regarding anti-competitive conduct or unfair market practices.

The ACCC can provide you with general information but is unable to provide legal advice or dispute resolution services.

1300 302 502 or [www.accc.gov.au](http://www.accc.gov.au)

### **Australian Prudential Regulation Authority (APRA)**

For concerns regarding financial institutions (including general insurance and reinsurance companies) financial stability, including their ability to meet their obligations to depositors, fund members, and policy holders.

1300 55 88 49 or [www.apra.gov.au](http://www.apra.gov.au)

## Appendix D. Home, contents and strata insurance brands (2016-17)

AAI	Allianz	Commonwealth Insurance Limited	IAL	QBE	RACQ	Westpac	Youi
AAMI ^	ALLIANZ ^	BANKWEST	BERKSHIRE	ANZ	RACQ ^	ST. GEORGE	YOUI
APIA	ANSVAR INSURANCE	COMMINSURE	CGU ^	ELDERS		BANK OF MELBOURNE	
GIO ^	BEYOND BANK AUSTRALIA		COLES	QBE		WESTPAC BANK	
ESSENTIALS BY AAI	CATHOLIC CHURCH INSURANCE		WFI ^	CHU ^^		BANK SA	
RESILIUM ^	CITIGROUP PTY LTD (CITIBANK)		NRMA			RAMS	
SHANNONS	COTA		RACV *				
SUNCORP ^	CREDIT UNION SA LIMITED		SGIC *				
TERRI SCHEER INSURANCE	CUA		SGIO				
VERO BROKER ^	FIRSTMAC LIMITED						
VERO CORPORATE PARTNERS	HSBC BANK AUSTRALIA LTD						
	IAN BERRY INSURANCE SERVICES						
	LOANS.COM.AU						
	NATIONAL AUSTRALIA BANK LTD						
	NATIONAL SENIORS INSURANCE						
	OVER FIFTY INSURANCE PTY LTD						
	POLICE CREDIT UNION						
	SCIA ^^						
	TIO ^						
	ZOBEL INSURANCE *						

\* Brands not supplied to consumers in northern Australia in 2016-17

^ Brands also supplying strata insurance in northern Australia

^^ Brands only supplying strata insurance





AUSTRALIAN COMPETITION  
& CONSUMER COMMISSION

