# RESPONSE TO THE ACCC INSURANCE INQUIRY INTERIM REPORT

Margaret Shaw
Confidential

**12th April 2019**

# Contents

## Introduction

This is the first report I've read since 2011 that doesn't sound like it was produced by the Insurance Council of Australia!! It's a pleasant change, I think the ACCC people involved in the production of this document deserve congratulations.

I found this report exceptionally thorough and well written. I've actually learnt from it several things I knew nothing, or very little about, so the research has been thorough.

It has changed my attitude (slightly) towards the insurance companies as I realise, they are dealing with problem intermediaries in some cases, although I am still sure that had they acknowledged a problem back in 2011 (when this all began for me) it would have been solved by now, or at least well on the way.

Some things reported I have found shocking, and had to re-read them several times to make sure I wasn't getting the information wrong. Some of the practices and comments from Senior Managers and brokers have been eye opening and I wouldn't have thought people should act that way to their fellow man, particularly as it could happen to them one day.

As I see it the main aim of this Inquiry for me is acknowledgement that insurance premiums are unacceptably high in northern Australia, as they may well be in other parts of Australia, and to find ways of making them affordable for everyone, no matter where they live.

**"Insurance is not a luxury, it is a necessity, and it has to be affordable." (M. Shaw)**

As a secondary aim we need to make people accountable for their actions, which seems to have been sadly neglected, and try to make their priority to do the best by the consumer and for themselves.

In 2015 even IAG acknowledged 30,000 households per year were dropping out of the market and the crisis was affecting 3 million households (see on next page). We have to be able to offer these people affordable premiums in order to reduce the risk of them losing their homes when a natural disaster happens. It will also reduce the amount of money various Governments and charities supply in the aftermath of a disaster, that can only be for the good.

According to the Productivity Commission Report into Natural Disasters only 3 per cent of the total money spent on a disaster is spent prior to the disaster, with 97 per cent spent afterwards.

# Invitation: Have your say on building a stronger Far North Queensland

Please join us at this important community forum where we will discuss the affordability issue which is affecting three million adults in Australia and is forcing 30,000 households to drop out of the insurance market each year.

Affordability has also been identified as an obstacle to the development of Far North Queensland and is the topic of several government inquiries and reports.

The event will be moderated by Advance Cairns CEO, Mark Matthews.

A BBQ lunch will be provided following the forum.

Forum details:

> Date: Monday, 14 December 2015
> Time: 11am – 1.30pm
> Location: ARC Community Hub, 52 McNamara St, Manunda

RSVP: [redacted]

iag

As for the mandatory requirement for strata to be fully insured for replacement value, as per regular valuations, this is a captive market and people paying $3,000-$9,000 per unit in insurance alone is causing unbelievable problems.

How you define affordability is beyond me. What is affordable in the major cities can vary massively with what is affordable in the regions, due to income.

There has to be solutions, not only for the people of northern Australia but for the whole of Australia as many areas are subject to natural disasters, if not cyclones.

**“a solution that cannot be expanded, as required, is no real solution at all.” (M. Shaw)**

# Overview

Northern Australia is a vitally important region of Australia. This area is only going to become more important with the proposed future Hellsgate Dam, and other infrastructure in the pipeline.

Various Governments want to open the region to become a second food bowl for Australia, to create a potential booming area, and to encourage people to move here. This cannot be done with the current cost of living, mainly fuelled by electricity and insurance costs.

In a survey done by the Townsville Bulletin over the Christmas 2018-2019 period the cost of insurance was raised as the number one concern to the community, followed by electricity.

Households and businesses may not be able to live without electricity but they can exist without insurance and that seems to be what's happening. However, those in strata property have no option but to insure, and insurance is mandatory for some mortgages, although how often the banks actually check the policies are in place after the first year is unknown.

I currently am unaware of any strata properties which are not insured, the Hon George Christensen MP and the Strata Community Association Qld (SCAQ) may know differently.

A major problem is the number of insurance companies offering strata insurance in northern Australia, both for new business and renewals. I am unaware of which companies are offering new business quotes for:

1. Valuation $5M or less
2. Valuation $5M to $15M
3. Valuation above $15M

The Suncorp strata direct product (10 or less apartments and value <$5 million) has been successful for those in point 1 above but may leave Suncorp over exposed in the region. Resilium (owned by Suncorp) is also quoting new business for those covered by point 1 above (16 or less apartments). However, to get a quote from Resilium you need to use a special broker as "normal" brokers do not seem to have access to the company.

Vero (Longitude), also owned by the Suncorp Group, will quote for point 2 above, SUU might if you're lucky, Brooklyn Underwriting will (if more than 500m from the coast).

Everyone seems to have limitations of one sort or another.

Lloyds of London will nearly always give a quote for point 3 above but seem to have a minimum premium of 2% of valuation.

Chubb refused to issue renewal quotes in 2017 to existing customers, the apartments I lived in at the time were one of the complexes affected, and AIG withdrew from the market at the end of June 2018.

I understand there are problems with profits in northern Australia, although it is interesting to note the insurance companies are more profitable than the banks in Australia.

One can only reach the conclusion insurance companies:

- Don't want to operate in Northern Australia
- Don't want to over expose themselves to risk due to catastrophes

- Are cherry picking
- Are taking action by raising premiums to deliberately lose clients
- Are actively no longer offering quotes for new business in areas they perceive to be high risk
- Have left the market altogether

All this has helped drive insurance premium upwards.

Even increasing the excess:

"For north Queensland and north Western Australia the selected excess is between 50 and 60 per cent higher than the rest of Australia." [1]

doesn't help much. If consumers had the same excesses as the rest of Australia premiums would be higher still and the differential even higher than that contained in the report.

"I think we need to go to the reinsurer…with more evidence that we are trying to slow growth in FNQ." [2]

"use pricing as a lever to arrest growth" [3]

"it noted that it had tightened risk acceptance criteria and (used) deliberate price changes." [4]

They just don't want the business and they are pricing themselves out of affordability.

A number of companies have ceased writing new business but then when an insurer leaves the market altogether, such as AIG, who picks up the abandoned clients?

The actions of the insurance companies and intermediaries has resulted in:

- Higher cyclone component
- Higher flood component
- Higher admin component
- Higher overhead costs
- Higher claims cost
- Higher reinsurance costs
- Higher premium adjustments – concentration risk due to lack of competition
- Higher commission cost because higher premiums
- Higher GST costs because higher premiums
- Higher stamp duty cost because higher premiums

It's the premium adjustments that price a policy out of the reach of a normal Northern Qld household, coupled with the fact brokers and intermediaries don't want their commissions to go down and put pressure on to keep their commissions safe.

We have to make sure any measures suggested and implemented are applied across Australia where-ever possible to the benefit of all Australians.

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[1] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 16
[2] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 83
[3] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 84
[4] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 84

## Clarification of some points

Throughout the report you refer to Longitude as an insurance company. Longitude is a hub for brokers to access Vero Insurance (owned by Suncorp). Every policy put through Longitude is written by Vero. However, you can get quotes via your broker direct from Vero without using Longitude, these quotes often (always) differ. Confused yet?

"17 For example, IAG sells strata insurance via the Strata Unit Underwriting agency, and Suncorp via Longitude and Resilium." [5]

"a combination of its Longitude (27 per cent), Resilium (10 per cent) and Suncorp (8 per cent) brands."[6]

Are they including Vero under Longitude?

Page 29 Figure 3.9 I don't think the colours tie up with the names. You say the most significant increase has been in north Queensland but the colour for north Queensland shows very little increase, and the green line doesn't have a name.

"Insurers incurred heavy losses in northern Australia earlier this decade due to the impact of significant natural disaster which resulted in large claim amounts, including Cyclone Yasi (2011) and the 2010-11 Queensland floods." [7]

The "2010-11 Queensland floods" were predominately the Brisbane floods which is south east Queensland and not northern Queensland.

"This has also impacted on the cost of reinsurance, which is a significant component for insurers."[8]

According to the insurance companies the cost of reinsurance has been affected by disasters in the southern area of the world which have had larger claims, not just northern Australia, such as:

1. Tsunamis in Sri Lanka
2. Tsunami in Japan
3. Nuclear problems in Japan
4. The Christchurch earthquakes
5. Hurricanes in the USA

The Courier-Mail January 7 2013 reported an ICA spokesman saying rising reinsurance costs were a driver of higher premiums. However, according to various newspaper articles, after the Brisbane floods insurance premiums in Brisbane went up by approx 36%. Complexes from Rockhampton to Port Douglas which had no claims due to Yasi, floods or bushfires, went up over 200%.

According to Christchurch brokers, Christchurch residential properties have increases of 30% since the earthquakes. Does New Zealand pay different reinsurance costs?

More importantly, the front page of the Weekend Australian Business Review 10/1/2015 stated "Investors Boost Reinsurance Capacity – Premiums set to fall amid funding wave". It was all about a wave of funding

[5] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 12, footnote 17
[6] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 121
[7] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page iv
[8] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page iv

flowing into global reinsurance markets by investors seeking higher returns, which in turn brings down reinsurance costs.

If reinsurance costs fall shouldn't all insurance premiums fall, or at least remain steady. Did it happen? Have we seen any benefit from this?

"Consistent with rising premiums, we also observed that insurer's commission costs in northern Australia have more than doubled on a per policy basis since 2007-2008." [9]

Commissions are normally based on a percentage of premium, as premium rises so do commissions and since most policies have risen by 100% so have the cost of commissions. However, some brokers are now adding an administration fee of 10% of premium on top. See BCB Financial Services Guide (FSG) for CommunitySure products page 4 and top of page 5 in their Remuneration and Other Benefits section. Not only do BCB charge **up to 20%** in commission but **another 10%** in administration on top, and up to 87.5% of the commission charged or 50% of fees go to any introducing third party which includes Body Corporate Managers.

"The introduction of flood cover, which insurers often make compulsory *(although the legislation allows it to be optional)*, has also seen premiums rise for consumers in high flood risk areas."[10]

According to Karl Sullivan, General Manager Risk and Disasters ICA, 5% of Councils have not provided the flood information required by the ICA and its members. This included Townsville up until earlier this year, late January or early February when I contacted the Mayor about it.

This means some people may be paying higher premiums unnecessarily.

We need to find out which Councils haven't provided the required data and put pressure on them to provide the information.

"In real terms, the stamp duty revenue collected from home, contents and strata insurance in northern Australia has increased from $22 million per year in 2007-2008 to $79 million in 2017-2018. GST revenue has increased from $25 million to $78 million over the same period."[11]

So, it isn't in the interest of Governments to take action. However, surely a large percentage of the windfall could be spent on mitigation work and grants.

"There is little or no direct relationship between the size of the commission and the work undertaken."[12]

There is NO direct relationship.

"We found commission rates of 15 to 20 per cent per year of the base premium to be common."[13]

15 to 20 percent is normal, 25% is common.

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[9] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page iv
[10] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page v
[11] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page v
[12] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page v
[13] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page v

"Consumers expressed frustration at the lack of transparency in how insurers assess risks and calculate premiums." [14]

No-one has any idea.

"Some told us that, as a last resort, they have had to choose to not be insured."[15]

These are the vulnerable ones. According to IAG, 30,000 households a year are dropping out of the insurance market.

"Properties built to modern building standards, which set minimum acceptable standards, are generally at less risk of sustaining structural damage."[16]

There's a major problem when the QBCC states a building is sound and when the insurance company states damage is due because the building was unsound to begin with. There is no recourse for arbitration to decide who is right. The QBCC wipe their hands of the problem although the insurance company won't pay out. In a number of cases I believe the insurance company to be correct and the property should never have been passed as suitable.

This conflict problem needs to be resolved.

"We urge governments and industry to take quick action on our 15 ***recommendations***. Some of them have been made a number of times before." [17]

Quick action just isn't going to happen, especially when the recommendation has been made before and, so far, ignored by the powers that be. What can be done to aid in this?

"While we believe these measures will bring improvements to insurance markets, we consider a stronger policy response may be necessary to address the scale of insurance affordability concerns that are emerging."[18]

A stronger policy response is required for strata insurance if nothing else, urgently.

"We will consider proposing further policy measures that could have the potential to achieve real and meaningful change for northern Australian communities." [19]

There are thousands of households and businesses who have lost hope, so I really, really, hope you can do this.

[14] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page vi
[15] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page vi
[16] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page vii
[17] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page vii
[18] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page vii
[19] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page vii

- There are three main products providing coverage for residential buildings and contents; home insurance (which provides cover for buildings only), contents insurance (which provides cover for contents only), or a combined home and contents product. Approximately 51 per cent of all home and contents insurance products sold are combined policies. [20]

Are you including strata insurance in the home insurance definition?

"However, for a complex with a number of free-standing properties the property covered by the strata policy may be more limited." [21]

If you're talking about gated communities, duplexes or retirement villas then you may be correct. However, complexes which have more than one building included in its strata, such as 25 apartments spread over 7 separate buildings with no connecting walls, has no flexibility unless you set up separate Bodies Corporate for each building.

"It is surprising to find some of our customers can afford such premiums." [22]

They can't, which is why they are dropping out of the market.

"In 2014, the Australian Government Actuary (Peter Martin) found that premiums for home and contents insurance in north Queensland had increased due to…" [23]

If you read the report you will find the details of the Brisbane floods 2011 have not been taken into consideration.

In addition, I understand that when the AGA asked for further information a number of insurance companies refused to give it. These included Sunscorp, since Suncorp is one of the major insurers in north Queensland, without their figures any report would be meaningless.

"Suncorp considers that another reason for higher premiums in northern Australia is that there are many older homes which are more vulnerable to cyclone damage" [24]

Older homes that have withstood multiple cyclones since they were built, and been repaired to cyclone standards when damaged. Also, this doesn't explain why the insurance premiums for new homes and complexes have been affected.

"At the extreme, in 2017-18, consumers in the Whitsundays (the postcode with the highest average premiums for combined home and contents insurance) paid on average $2180 in GST and stamp duty alone." [25]

I've let the Council know, I hope they respond.

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[20] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 7
[21] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 10
[22] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 19
[23] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 62
[24] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 62
[25] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 88

Now for a contradiction…

**"However, the ICA says contrary to some perceptions, no significant insurers have left markets in northern Australia"** [26]

**"many insurers, including insurers of significant scale, have either left or continue to stay out of northern Australian insurance markets."** [27]

As I see it, and I could be mistaken and if so I apologise:

- AIG left the market in July 2018
- Chubb refused to issue renewal notices from December 2017
- QUS (Queensland Underwriting Solutions) completely withdrew from the NQ strata insurance market from 5/12/11.

Comment from the Internet:

*"QUS has completely withdrawn from the North Queensland BC insurance market as of 5th December 2011 even to the extent of **not honouring quotes** they already had offered to bodies corporate for renewals in December."*

- Zurich made an announcement:

**Zurich leaves the strata market for good - 6/2/2016**

*Feb 6, 2016 — Zurich stopped writing new strata business in 2011/2012. However, they've withdrawn from the entire strata market in Australia. Anyone who has one of their policies will have to use someone else at their next renewal.*

*"Zurich has now ceased offering strata policies and we will cease renewing strata policies with policy renewal dates effective as of 15 March 2016.*

- *All existing strata policies will remain valid and in force until their scheduled expiry date*
- *All claims will be managed in the normal process"*

- AMP GI no longer quoted on new business and eventually sold their strata business to Longitude/Vero (Suncorp).

- Wesfarmers/Lumley sold its underwriting operations to IAG:

It was reported in the Townsville Bulletin on October 21st, 2011 by Jessica Johnston that WFI had told people the company would no longer insure residential properties north of Bundaberg.

***WESFARMERS will sell the Australian and New Zealand underwriting operations of its insurance division to Insurance Australia Group for $1.845 billion.***

*"The deal includes Wesfarmer's underwriting companies trading under the Lumley Insurance and WFI brands, as well as a 10-year distribution agreement with Coles Insurance."*

Wesfarmers said it expected to record a pre-tax profit of $700M - $750M after the sale.

I don't believe Lumley offers insurance in north Queensland.

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[26] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 110
[27] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 115

I thought these were significant companies.

Do we trust the ICA or the ACCC?

Once again:

"In contrast to our analysis in Chapter 3 the ICA suggested that more consumers in the north generally select *lower* excess payments compared to policyholders in the south. " [28]

Who does one trust, its hard?

Then there's the vicious cycle:

"Internal insurer documents also show that price increases from other insurers are seen as an opportunity to increase their own premiums." [29]

So, nobody wants to be the cheapest in the area, which means the next insurance company which becomes the cheapest puts their premiums up, so the next insurance company……. And so on.

"for higher risk areas insurers often try to avoid being the lowest priced insurer in the market" [30]

And you just have to pay attention to the following:

**Box 7.2 Increasing premiums in response to competitor pricing**

On observing that competitors had increased premiums, senior managers at one insurer commented:

*'We've got so much more upside than I realised. We need to address this but we need to be careful that people don't see it as us sneaking in further increases as part of flood...This makes me happy. I didn't realize we had so much opportunity.'*

*'I believe we need to be able to justify any increases. I can see regulators being interested and 'profiteering' allegations downstream...I'm not saying don't do it, far from it, I'm just saying lets have some good reasons including rising costs...of reinsurance, changing claims patterns and costs, reducing portfolio subsidisation blah blah.'*

This could be called rorting the system or, at the very least, unconscionable conduct.

The AGA report found that insurers paid out more than $1.40 in claims for every $1 of premium that they collected during the period (the report does not seem to include the Brisbane floods).

Tony Raggatt Business Editor of the Townsville Bulletin disagreed.

Townsville Bulletin, Edition Townsville SAT 28 MAY 2016, Page 31

Insurers' cyclone claims blown out of water

I ACCEPT we need to better protect our property to withstand cyclones. What I don't accept is a

[28] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 170
[29] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 128
[30] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 129

representative insurance body controlled by a couple of powerful corporations playing fast and loose.

As raised last week, the Northern Australia Insurance Premiums Taskforce recently released a report which completely blows out of the water claims by insurers they are paying $1.40 in claims for every $1 they take in premiums in North Queensland.

This week the insurance council took issue with my use of the report's figures. Well, either the taskforce's actuarial consultant, Finity, and the “best scientific estimates currently available" are way off the mark or the insurers' claims are wildly exaggerated.

Finity estimates insurance losses due to cyclones - category one or stronger - in northern Australia over the past 20 years to be around $120 million a year in current dollar values.

This compared with a premium pool for cyclone cover around $480 million a year. Finity noted the total premium pool in northern Australia was around $1 billion.

For insurers to suggest they are paying out $1.4 billion a year in cyclone claims is so absurd as to be unhinged.

Evidently concerned the historical claims estimate might be understated, the taskforce commissioned modelling indicating the long-term future losses from cyclones could be around $290 million a year.

It seems we are paying sky-high premiums based not on what has happened but on what could happen.

Finity also estimated that a typical Townsville home had the highest cyclone premium of any major centre in Australia at $2059 compared with $1326 in Cairns and $394 in Darwin.

If we are going to be cut loose, we need more transparency in insurance loss ratios in northern Australia and acknowledgment cyclone losses have not been as bad as some make out. We also need more competition by having more insurers.

# Focus Areas

### Focus area 1: Measures to further improve insurance affordability and availability

**We will review options considered in Australia and internationally to improve insurance affordability and availability, and whether these could be applied in northern Australia.**

I've been told that every attempt at a mutual worldwide has failed.

1. There is a company awaiting a licence from the APRA which, I believe, is based on a mutual model. They have been waiting more than a year. I would like to know what the model looks like
2. There is a company/scheme in the USA called Lemonade, it seems to be working

### Focus area 2: Detailed case studies on sub-regions in northern Australia

**We will undertake a number of detailed case studies on parts of northern Australia that face particularly acute availability or affordability issues.**

I would like to suggest: the Whitsunday area for strata insurance; Mackay for business insurance; Cairns for all types of insurance; and we need to keep an eye on the premium increases coming through to Townsville after the floods.

However, I have been told by Joshua Cooney, Acting Executive Manager Government, Industry & Public Policy Group Corporate Affairs Suncorp Group that the Suncorp Group think they have their premiums right for the Townsville area.

It's worth noting the Pilbara region did an investigation into insurance and finance in the Pilbara area in August 2015, and I obtained a copy of that document and read through it. It stated business insurance in Mackay is higher than in Port Hedland.

### Focus area 3: Examination of premium adjustments

**We will further examine the use of premium adjustments by insurers operating in northern Australia. In particular, we will consider:**

- **the scale of premium adjustments and their potential to distort price signals to consumers regarding risks**
- **the potential impact of adjustments employed to manage concentration risk and exposure, on higher risk consumers**
- **the extent to which insurers are discriminating between new and existing customers through premium adjustments.**

The report implies the insurance companies are offering lower premiums to new customers. This maybe true for home and contents but definitely not for strata.

### Focus area 4: Identify and investigate barriers to expansion (or re-entry)

**We will engage with Australian insurers not currently active in northern Australia to identify and investigate barriers to their expansion (or re-entry) into northern Australian markets.**

There are no barriers for insurance companies who have been in the northern Australian market, except for the fact they don't want to be there.

## Focus area 5: Understanding non-insurance and how it may be addressed

**We will explore the extent and reasons for non-insurance throughout northern Australia, including in indigenous communities. As part of this focus area, we will consider current and potential measures to improve the accessibility of insurance to low income households. We will look at the extent to which insurers make Centrepay available to eligible customers and why hardship policies are generally limited to the payment of an excess and not a premium.**

I believe the major reason for non-insurance to be cost.

Another major problem is underinsurance. I understand consumers are lowering their sum insured to obtain an affordable quote. This may work for when there is a minor claim but when there is a natural disaster it can prove to be a problem. I believe when an insurer thinks a household is underinsured (for example by 25%) then they'll only pay out a reduced per centage of the claim (75%).

Please make sure you address the problems faced by Christmas Island and Cocos Islands as well, they so often get forgotten and Christmas island finds it difficult to get any insurance quotes.

## Recommendations

I know you don't really want me to comment on the recommendations, so I'll keep it brief.

### Recommendation 1: Abolish stamp duty on home, contents and strata insurance products

**The governments of Western Australia, the Northern Territory and Queensland abolish stamp duties on home, contents and strata insurance products. State and territory revenue needs could be more equitably met through other means.**

It has been widely acknowledged that stamp duties on insurance contracts are an inefficient form of taxation. This recommendation is in line with recommendations from previous inquiries into insurance and taxation issues.

A number of Inquiries have identified this, and been ignored by State and Territory Governments.

### Recommendation 2: Re-base stamp duty, use stamp duty revenue and mitigation

**If stamp duties on insurance are maintained, the Western Australia, the Northern Territory and Queensland governments should reduce their burden on consumers in higher risk areas by levying stamp duties for home, contents and strata insurance with reference to the sum insured value, rather than the premium level.**

**In any case, they should also direct a portion of revenue from stamp duties on insurance products towards measures to improve affordability for low income consumers or to fund mitigation works.**

Re-basing stamp duty to be levied on sums insured will make it fairer to consumers living in higher risk areas.

Governments have previously received and continue to enjoy a windfall gain from the growth of insurance premiums in northern Australia. Directing revenue from stamp duties to public mitigation works should only be considered where insurers have provided estimates of premium reductions that would result from such works, and commit to reporting against these where work is undertaken (see recommendation 14).

I spent a long time thinking about this and I think it would help and be fairer.

At 0.1% a $400,000 property would be charged $400 and a $1,000,000 property would be charged $1,000, no matter where it's location.

As I've already said, surely a large percentage of the windfall the State and Territory Governments are getting in additional stamp duty due to increased premiums could be spent on mitigation work and grants.

### Recommendation 3: Insurers to report their brands and where they are writing new business

**The Insurance Contracts Act should be amended to require insurers to report regularly to ASIC on the brands that they underwrite, and in which postcodes new business has been written for home, contents and strata insurance products.**

This will provide greater transparency on which insurers underwrite which brands and assist consumers searching for alternative suppliers in their area. This would build on the Productivity Commission's recommendation in the recent inquiry into competition in the Australian financial system that insurers should provide an up-to-date list of the brands they underwrite to ASIC and that ASIC should transparently publish this information as a list on its website. (PC recommendation 14.2)

People would really like to know where companies are willing to quote on new business, and for what type of business. This would help people move around insurance companies and get various quotes.

This would be of particular interest for strata properties who are finding it close to impossible to get more than one quote, and that a renewal.

Consumers would also be able to check their brokers or intermediaries are getting quotes from everywhere available.

### Recommendation 4: Standardise definitions of prescribed events

**The Treasury's review of the standard cover regime should develop a proposal to standardise the definitions of prescribed events (including 'action of the sea', 'impacts' and 'storm') to enable greater certainty for consumers and comparability of products.**

New standard definitions should be drafted in a way that removes potential gaps in coverage between prescribed events, avoids the introduction of ambiguous concepts, and does not unnecessarily limit insurers' scope for future beneficial product innovation.

Excellent, this is very much needed.

### Recommendation 5: Review and mandate standard cover

**The Treasury's review of the standard cover regime should develop a proposal to mandate that insurers offering home insurance/contents insurance products should also offer a home insurance/contents insurance product that does not deviate (through inclusions/exclusions) from the revised standard cover terms in the Insurance Contracts Regulations.**

By ensuring there is one common product from each insurer (but not necessarily each brand), consumers could easily benchmark insurers against each other. This should not limit an insurer from offering other products that provide cover that differs from the standard cover product but insurers should be required to clearly indicate how these products differ from their standard cover product.

This is very interesting and would allow people to compare apples with apples, even if they then chose to buy an orange.

### Recommendation 6: Unfair contract term protections should apply to insurance

**The unfair contract term protections in the Australian Securities and Investments Commission Act should apply to insurance contracts regulated by the Insurance Contracts Act.**

The government is currently consulting on this change (which it has agreed to in principle).

I am a firm believer this should be implemented immediately, if not sooner!

There are people still in court regarding TC Yasi let alone TC Debbie.

### Recommendation 7: A link to MoneySmart should be on new quotes and renewal notices

**The Insurance Contracts Regulations should be amended to require insurers to clearly inform consumers about the Australian Government's MoneySmart website (www.moneysmart.gov.au). A link to MoneySmart using uniform text should be provided on new quotes and renewal notices.**

MoneySmart includes information to help consumers understand insurance. This is an important opportunity to raise awareness of the usefulness of this website.

I knew nothing about this website.

However, if you are going to include this link on new quotes and renewal notices I think you should also tell people why it is there.

### Recommendation 8: Better understand information that falls within 'general financial advice'

**The Insurance Council of Australia should engage with ASIC to gain a clearer understanding about the nature and type of information insurers can give to consumers within the meaning of providing general financial advice.**

This would ensure that insurers are not refraining from providing general information, for example about rebuilding costs and building valuations, which would assist a consumer make an informed decision about their own situation.

This can only be of benefit to consumers, so long as the information is only given and not insisted on – APIA (Suncorp) won't allow you to under insure your property, unless they've changed their rules again.

### Recommendation 9: Disclose costs that count towards 'sum insured'

**The Insurance Contracts Regulations should be amended to require that insurers clearly disclose the types of costs that will count towards the sum insured amount for buildings (such as the costs of demolition, debris removal or for professional fees) where these are not provided for through a separate allowance under the policy. This information should be provided on any sum insured calculators used by the insurer and alongside the sum insured figure.**

This will help consumers understand why and how calculator estimations can differ and empower them to make more informed decisions about their nominated sum insured. It should be provided alongside the sum insured amount for a property, including in quotes for new policies, renewals and on certificates of insurance.

Agreed.

### Recommendation 10: Disclose the premium, sum insured and excess on a renewal notice

**The Insurance Contracts Regulations should be amended to require that renewal notices for home, contents and strata insurance clearly disclose the premium, the sum insured and any excess of the expiring policy. Insurers should also provide this information upon request.**

This will allow consumers to easily identify how the insurer proposes to vary these terms from the previous year and seek explanation of any changes.

Agreed.

## Recommendation 11: Extend the ban on conflicted remuneration to insurance brokers

**The Corporations Regulations should be amended to remove the exemption for general insurance retail products from the conflicted remuneration provisions as they apply to insurance brokers.**

Commissions and other benefits given to insurance brokers can give rise to an unacceptable conflict of interest. As is already the case for other financial products, insurance brokers should be prohibited from receiving commissions and other benefits where these create a conflict with a broker's obligation to act in the best interest of their clients. Disclosure alone is insufficient to address these conflicts.

I actually disagreed with this until I had read the entire report, I have always had a good relationship with brokers and with Dallas Booth (NIBA).

However, I have found that brokers are "protective" of their clients to the point they will not introduce them to a product, or company, which they receive no benefit from.

e.g. JLT had a problem getting their new product for complexes valued at $20 million+ to the Body Corporate Committees because the Body Corporate Management company arranging the insurance isn't asking them to quote, and neither is the BCM's preferred broker as JLT is seen as a rival broker.

e.g. "Normal" brokers don't get quotes from all available insurance companies, such as Resilium.

There have also been instances where brokers and BCMs have not approached the insurance options to the benefit of their clients. Several people have communicated to me that their BCMs and brokers have not approached the Suncorp Strata Direct policy (10 or less apartments and value $5 million or less) stating the complex doesn't fit the criteria when it actually does. It could be a mistake, the terms and conditions, or the fact this product does not pay commissions.

Personally, I have been in the situation where our broker told us (strata Body Corporate Committee) that a particular insurance company would not quote for us. I contacted the CEO and asked why, and when he checked his quotation system he could find no trace of any request to quote (that doesn't mean there wasn't one). This resulted in my contacting another broker and authorising them to act on our behalf with this insurance company, which resulted in a quote which we eventually accepted.

After having read the whole report I was horrified at some of the examples, especially the implication that if a company wanted to lower its premiums brokers were saying that would lower their commissions so they would take their entire portfolio to a different company.

*'Having large premium decreases on renewals reduces our credibility. This is worse in the intermediary market where the intermediary sees this multiple times in contrast to direct customers who only see their own individual policies. Intermediaries want to see their commission income at least maintained, not reduced. This is a problem for them that has been raised in the past quite vehemently... Regions indicated that if the negative collars are excessive, intermediaries will demand that they individually reduce the collars to zero for their account no. or ask for commission rate increases. The regions said that they want to avoid both of these scenarios.*
[31]

It has become clear when brokers get concessions from insurance companies, the benefits are not always passed on to the client in lower premiums. This is downright wrong.

[31] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 15

"They argue that the removal of commissions would not increase or otherwise affect competition in northern Australia" [32]

But it would make it more affordable.

I agree with this recommendation as it allows a negotiation of brokerage fees to take place, the appointment of "set-fee" brokers, and the appointment of local brokers rather than large brokerages from out-of-town.

### Recommendation 12: Better information for consumers lodging a claim

**The General Insurance Code of Practice should be amended to require that at the time a consumer lodges a claim, an insurer or its agent must clearly inform the consumer of the insurer's claim handling policy, and expressly refer to:**

- **how the insurer will assess the validity of the consumer's claim**
- **the insurer's preferred repairer policy and in what circumstances a consumer can use their preferred repairer**
- **how decisions are made on cash settlements**
- **who will be managing the claim (for example, the name and contact details of a contracted claims company if relevant)**
- **the fact that the loss adjuster is acting on behalf of the insurer and not the consumer**
- **the consumer's right to make a complaint to the insurer and the Australian Financial Complaints Authority.**

Agreed.

It also needs explaining how cash settlements are worked out to prevent consumers taking a cash settlement lower than they will actually have to pay for repairs.

### Recommendation 13: ASIC approval for the General Insurance Code of Practice

**The Insurance Council of Australia (ICA) work with ASIC to obtain its approval for the General Insurance Code of Practice.**

The ICA has indicated in its recent Code of Practice Final Review Report that in order to meet the requirements for ASIC approval it will make a number of changes to the Code. The ICA should work with ASIC to ensure that these changes are sufficient to meet at least the minimum standards in Regulatory Guide 183 to obtain ASIC approval.

Sooner rather than later.

### Recommendation 14: Public mitigation works and expected premium reductions

**The insurance industry should work with governments to identify specific public mitigation works (e.g. flood levees) that could be undertaken and insurers should provide estimates of the premium reductions they anticipate should the works proceed.**

Actual premium reductions following such works should also be publicly reported by insurers, measured against their estimates.

Agreed.

The insurance industry should also work with consumers in a similar way. It is difficult to sell the need for a replacement roof at a cost of $30,000+ if the resulting premium is going to be lowered by $600.

[32] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 194

### Recommendation 15: Building code changes to better protect interiors and contents

**The Australian Building Codes Board expressly consider measures that better protect the interiors and contents of residential buildings from damage caused by natural hazard risk (such as, wind-driven water ingress around doors and windows during and following storms).**

When assessing the costs and benefits of potential code amendments, the ABCB should also consider the potential longer term impacts on insurance premiums.

Agreed.

## Draft Recommendations

### *Draft recommendation 1: Insurers should estimate a sum insured for customers*

***The Insurance Contracts Regulations should be amended to require insurers to estimate an updated sum insured for their home insurance customers and advise them of this estimate on their renewal notice.***

*This estimate should note when the information used by the insurer to form the estimate was last updated by the consumer, and direct the consumer to contact the insurer if renovations/alterations to their home had occurred since then. Where the sum insured estimate is materially higher than provided for under the policy, the renewal notice should also include a warning to the customer about the dangers of their property being underinsured.*

Very useful to consumers, so long as its only a warning and not an insistence that the sum insured be raised.

### *Draft recommendation 2: Prominently publish PDSs and KFSs online with product offerings*

***The Insurance Contracts Regulations should be amended to require insurers to publish key facts sheets and product disclosure statements online in a prominent manner and alongside the relevant products.***

*They should be accessible prior to the commencement of a quoting process. This will facilitate more timely and convenient access for consumers to important information about products they are interested in buying.*

Agreed, and simplify where possible, I too have read (and written) books with less words.

### *Draft recommendation 3: Disclose premium impacts of optional inclusions or exclusions*

***The Insurance Contracts Regulations should be amended to require that insurers disclose the premium costs or saving for each optional inclusion or exclusion they offer to a consumer. Insurers should also indicate the premium cost or saving associated with incremental changes in excess levels and sums insured. This information should be provided to a consumer with a quote for a policy and upon its renewal.***

*Providing consumers with information about the cost impact of optional inclusions/exclusions (e.g. flood cover, accidental breakage cover) as well as variable costs (such as changing an excess or sums insured) will allow consumers to make more informed decisions about their choice of cover.*

This is an excellent recommendation.

Is cyclone cover an optional inclusion though? I know one complex who didn't want to be insured for cyclone as they had no claim from TC Debbie but were finding it difficult.

I actually tried a similar thing as Treasurer where I asked for quotes with excesses of $150,000 (the minimum we could take, $200,000, $300,000 and $500,000, the difference in premium between $150,000 and $500,000 was $3,000. So, raising your excess sometimes makes very little difference at all.

### Draft recommendation 4: National home insurance comparison website

***The government should consider developing a national home insurance comparison website. It should require the participation of all insurers active in relevant markets, allow consumers to compare policies by features, and make it quick and easy for consumers to act on the results.***

*An independent insurance comparison website may facilitate more informed consumer choice by assisting consumers to quickly and easily find insurers in their area and offering policies that meet their needs. Comparison websites can provide an opportunity for new entrants to increase consumer awareness of their brand at relatively low cost, reducing a barrier to entry. Enhanced comparability of products, such as through standardised definitions (recommendation 4) and mandated standard cover (recommendation 5), will assist in the effectiveness of such a website.*

Look at updating the North Queensland Home Insurance website.

However, no website can work for strata insurance as it is too diversified, and if it isn't mandatory for insurance companies to take part the bigger ones, such as the Suncorp Group won't. This makes any website useless.

However, if you do go ahead with this please make sure the consumer knows the payment from an insurer to a comparison website is approximately 25 per cent of the product's final cost in nine out of every ten cases, so its likely to be cheaper to go direct.

Also, consumers do need to know which insurers take part and who doesn't because one of the insurance companies who doesn't take part could come up with the best policy.

### Draft recommendation 5: Renewal notices should give 28 days notice

***The Insurance Contracts Act should be amended to require insurers to provide renewal notices for home, contents and strata insurance no less than 28 days before the expiration of their insurance coverage.***

*The Insurance Contracts Act currently requires no less than 14 days. The current minimum timeframe does not provide consumers with sufficient time to consider their renewal quote and explore their insurance options. It also may not be sufficient time for some consumers to have ready-access to funds.*

Agreed.

However, in the case of strata the notice is sent to the Body Corporate Management company and quotes may not be provided to the Committee for days/weeks after.

This recommendation needs action by the State and Territory Governments to ensure once the renewal, and any other quotes are provided, the details are passed to the Body Corporate Committee within 7 days.

In 1 case a complex had 24 hours to raise $120,000, which required premium funding, as their management company hadn't told them there was a problem.

Here is another actual example:

*In November 2015 a broker advised a complex to change to AIG with premiums being approx. $83K pa. Premiums remained at around this figure for 2016 and 2017, due 30th November each year. After TC Debbie the complex had extensive damage, which has been fixed successfully under their AIG insurance.*

*AIG left the market in July 2018 but the broker either didn't inform the Body Corporate Managers (I think they did) or the BCM didn't inform the Committee until sometime later, and the broker said they would look for alternative quotes, the feeling given the Committee was that all was fine.*

*There was a Body Corporate meeting 5th November and the Body Corporate Managers said the broker was still looking for cover. On 20th November (with 10 days to go) the broker told the BCM they still hadn't managed to find cover so an emergency meeting was called by the broker for the 26th November (4 days to go) in order to inform the Committee of the situation. The advice was, they were having difficulty arranging insurance as Insurance Companies didn't want to increase their insurance exposure to Nth Qld. The Committee was also advised:*

1. *If the property was not insured by 30/11/18 then under QLD law, technically, the resort would need to close – I believe this is correct as there would have been no public liability*
2. *The broker advised he was pursuing a policy through Lloyds of London. Needless to say, concern was expressed by the Committee which started looking for alternative insurance cover through their individual contacts*

*On 28th November (2 days to go) another teleconference meeting with Broker was arranged and the broker said Lloyds of London would insure for **$517K pa** ($10,000-$11,000 per unit). This was a disaster which would have resulted in many forced Mortgagee sales and a significant drop in property values but they had no choice under Qld legislation but to agree. Premium funding was needed and the quote for that came in at about 6% pa. At the expiry date (30th November) no forms had been signed either in agreement of the policy or for the premium funding, but I expect a cover note had been issued.*

*Here comes the sticky bit... on the 10th December before anything had been signed or funding arranged, they received notification from another Broker that another Insurance Company would insure them for **$157K** with premium funding being arranged at a rate of 2.5% pa. - this was a company the original broker had been rejected by. Since this was a reduction of $360K they had no choice but to accept it. A cover note was issued, with the forms signed and deposit paid 20th December. At which point advice was given to the original broker they would not be proceeding with the Lloyds offer as, basically, the premium involved was unrealistic and if they had signed the forms without exploring alternative options the Committee could have been found financially irresponsible.*

*The original Insurance Broker has asked for the compensation for loss of income.*

*The Committee refuted the claim based on the following:*

1. *The time line of events foisted upon them to make a decision was unconscionable conduct*
2. *Brokerage fees were never disclosed*
3. *No contract was ever signed as they sought alternative Insurance cover*
4. *Under the Law of Contract no deposit funds were paid or premium funding forms signed*
5. *No PDS had been received*

I don't know the outcome but the question arises as to why the second company reconsidered their underwriting decision through a different broker and why the premium quotes were so inconsistent.

### *Draft recommendation 6: Disclosure where premium increases are capped*

***The Insurance Contracts Act should be amended to require insurers that have capped premium increases for particular risks (to slow the rate of adjustment to a higher technical price or other pricing objective), to disclose this to an affected policy holder and provide an estimate of the timing and extent of premium increases that the insurer intends to apply in future.***

*This will allow consumers to recognise price as a signal of risk and prepare for potential future premium rises.*

Agreed.

However, wouldn't it be nice if all insurance companies had capped premium increases then we wouldn't get 200-600+ per cent overnight increases without warning.

You cannot raise rents over a certain percentage in one go so insurance companies shouldn't be allowed to raise premiums over a capped percentage in one go.

All insurance companies should have capped premium increases and provide an estimate of the timing and extent of premium increases.

### *Draft recommendation 7: Consider likely insurance costs before purchasing real estate*

***States and territories should implement measures to prompt consumers to investigate insurance costs when they are considering purchasing real estate.***

***As a first step, states and territories should include a statement in a statutory information disclosure for a real estate transaction advising any potential purchaser to obtain an insurance estimate as part of their due diligence.***

***If recommendation 5 (to review and mandate standard cover) is accepted, states and territories should mandate that a current home (building) insurance premium based on the standard cover product be listed in a statutory information disclosure for a real estate transaction.***

*This will provide prospective purchasers with a clearer expectation of the possible insurance costs associated with the property.*

It's a nice idea but I foresee problems:

- The actual suggestion implies there's a problem with insurance in northern Australia
- Property prices will fall
- People will not move to northern Australia
- There can be a HUGE amount of difference between companies for quotes for the same property and if a potential buyer happens to get the high one first, are they going to proceed?
- The "standard" cover may not be the cover required

Strata sales contracts already include a Body Corporate disclosure statement which shows the insurance and the other levies, but then strata must have insurance.

### *Draft recommendation 8: Requesting personal information held by insurers*

***The Insurance Contracts Regulations should be amended to require insurers to provide clear notice to consumers that they can obtain a copy of the information that the insurer holds about them, and contact details for doing so. This notice should be provided on a certificate of insurance and any renewal notices.***

*This will empower consumers to check and confirm their risk assessment, pricing and claims assessment is based upon reliable and verifiable information.*

Agreed.

I would love to see what they say about me, I think, maybe not.

## *Draft recommendation 9: Strata managers to be remunerated by body corporate only*

***State and territory legislation governing strata managers should be amended to prohibit strata managers from accepting payments in relation to arranging strata insurance other than those agreed to, and made by, their body corporate.***

*Strata managers should be required to negotiate any fees or payments for arranging insurance directly with the body corporate they are servicing. This would encourage remuneration arrangements that better align the interests of the strata manager and their clients.*

**YES!!!! Remove the clear conflict of interest.**

According to the Body Corporate and Community Management Act 1997 (Qld) strata managers must act honestly, fairly and professionally, and in the best interest of the body corporate.

Body Corporate Managers have to disclose the commission they are entitled to receive to the Body Corporate:

*"Section 135 of the Queensland Body Corporate and Community Management Act 1997 regulation 2008"*

However, in Queensland (different legislation in each State or Territory) that declaration of commission is contained within the Management Agreement. **Some Committees have no idea they are paying up to 20% (possibly more) of their premium in commissions to their Body Corporate Managers who they are paying to do a job!!!!**

I have already detailed my concerns and questions in my original submission to this Inquiry but I reiterate:

The Federal NAIP Taskforce Report was released 4th March 2016 and it quotes*:*

*"Regulating commissions to strata managers: Commissions paid to strata managers when they purchase insurance on behalf of an owners' corporation are generally calculated as a percentage of price, which means they may act as a disincentive to seek best value for money. In most states and territories, legislation already requires strata managers to act in the best interests of their clients and to disclose commissions. "*

In my opinion BCMs do not always act in the best interest of their owners when it comes to insurance.

Dallas Booth CEO of the NIBA (also on the NAIP Advisory Panel) has stated a number of times, and has put in writing in his submission to the Queensland Property Law Review February 2016:

1. *Owners do not always get the correct information and advice*
2. *The NIBA understands that very few body corporate managers in Qld would hold an Australian Financial Services Licence, issued by ASIC, to provide advice on financial products, including insurance policies*
3. *"If the body corporate manager is acting as an authorized representative of an insurance company or a party closely associated with insurance company, and earns third party commissions as a result of that relationship, it is highly likely the body corporate manager is acting in the interests of the insurance provider, and not in the interests of the body corporate"*

I totally agree with him.

The things that have to be thought about:

1. BCMs do not hold a licence but get around this by saying they don't offer advice they just get the quotes so its only an admin role – they get paid huge amounts in commissions for just an admin job
2. Are all BCMs going to get quotes from all insurance companies who are willing to quote, or only those who are going to pay the BCM a commission?

3. In the situation where the BCM has run out of insurance companies to contact, do they contact a local broker, one who offers a set fee for arranging insurance, or a preferred broker?
4. How likely is it the preferred Broker concerned is going to get quotes from, or even be able to explain, products on the market from other specialists such as: JLT'S Bespoke ISR Policy?
5. Do Committees know all the relationships between insurance companies and brokers? CHU and BSB are sister companies
6. Do Committees actually know all the costs of their premiums as in how much they are paying and to whom?
7. The commission paid to BCMs is not always declared as an amount, sometimes it just states "commission will be paid in accordance with our Management Agreement" so no-one is sure how much they've paid
8. Some BCMs charge for claims handling when the property is not insured through their preferred broker. We were charged $190 per hour + GST for handling our claims after TC Debbie because we used a different broker
9. Brokers are losing out on commission as they have to share it, and quite often they are not even retaining 50% of the payment for doing the major work
10. "Expensive" brokers are being used because they can afford to pay the management company for their business, so local brokers who know the properties and who charge set fees or smaller percentages don't get the business because they can't afford to pay the BCM commission

This Draft Recommendation coupled with recommendation 11 could make such a difference.

It could also result in more Committees choosing their own brokers, hopefully local ones who know the actual complexes and not ending up with the more expensive out-of-town brokers that never set foot in the place.

## *Draft recommendation 10: Clear disclosure of products considered and remuneration*

***The Corporations Regulations should be amended to require comparison websites and insurance brokers to disclose a complete list of what home, contents, or strata insurance products they will consider when making a comparison or providing a recommendation to a consumer. If recommendation 3 (insurers to report their brands and where they are writing new business) is adopted, this disclosure should also refer consumers to this information. Finally, comparison websites should also be required to disclose the amount of commission and other remuneration that they receive for each product.***

*Comparison websites and insurance brokers only consider a sub-set of the market when providing a quotation or recommendations. Consumers should clearly understand the breadth of search undertaken by the comparison website or insurance broker they are looking to use.*

Totally agreed.

## *Draft recommendation 11: Giving consumers more control over how claims are settled*

***The Insurance Contracts Act should be amended to provide consumers with the right to choose whether their home insurance claim is settled through a cash settlement or by proceeding with a repair/rebuild managed by the insurer.***

*The consumer must be given clear notice of the implications of accepting a cash settlement, for example the insurer will be discharged of any obligations to manage or guarantee the quality, cost or timeliness of any repair the consumer chooses to undertake. Any ancillary expenses subject to the claim that are not within the scope of works for the quote (such as temporary accommodation costs) would be settled separately.*

Agreed.

However, the consumer needs to know how the settlement amount has been calculated, discounts assumed etc.

We are in the Townsville floods. We decided not to use our own builder although we were tempted.

We finished tiling our house in November 2018, our scope of work for repairs allows a tile price of $40 per m2, our tiles were significantly more than this and we want the same ones (obviously). We're told by the supplier the amount in the scope of work is sufficient to cover the identical tiles due to the discount arrangement.

Also, people need to know the consequence of taking a cash settlement:

- More control over the tradies used
- No whole of life insurance
- They have to Project Manage
- Will they be offered renewal terms?

We chose to use the recommended builder:

1. I project managed the repairs to the complex we were living in after TC Debbie in Airlie Beach and I didn't want to project manage these repairs
2. Our insurance company said they would guarantee the work for life
3. They would guarantee renewal insurance – this was important to us

We have ended up with a building company based in SA but we will use local trades where possible.

### *Draft recommendation 12: Clearly stated mitigation discounts*

***The Insurance Contracts Regulations should be amended to require insurer quotes and renewal notices for a property to expressly show what discounts have been applied (if any) to reflect mitigation measures undertaken on that property.***

*This is important to help ensure premium adjustments are comparable between insurers and transparent for consumers. It also provides clarity to consumers and assists with evaluating investments in mitigation works.*

Agreed.

However, currently only Suncorp (not the Suncorp Group) and RACQI recognise any mitigation work.

The major companies dealing with large strata insurance, especially ISR policies, are not going to agree to this and may leave the market as a result. Otherwise all the new business quotes and renewal notices are going to show zero discounts.

### *Draft recommendation 13: Information on mitigation works that could reduce premiums*

***The Insurance Contracts Regulations should be amended to require insurer quotes and renewal notices for home insurance to provide a schedule of mitigation measures which customers of the insurer have undertaken for properties with similar characteristics in order to improve their risk rating. This should include a guide to the premium reductions (in percentage terms) that consumers have received for undertaking these measures.***

*This would provide (new or renewing) consumers with current information on a practical range of actions that could be undertaken to mitigate risk and show them what the benefit could be in terms of premium reductions. This will assist consumers to decide if the risk mitigation option is worth the upfront cost.*

Unfortunately, the cost of the risk mitigation is rarely worth the upfront costs.

Mitigation is a very hard sell.

One way I see it may work is if the insurance companies themselves donate to the costs, after all it is their money we're supposedly saving in a potential future claim. I believe people would feel better accepting money from the insurance companies rather than from Governments using tax payer's money.

## Additional Things To Consider

“A number of insurers moved to address level pricing for cyclone risk between 2013 and 2017, while others have not done so to date.”[33]

Insurers should tell consumers whether they use actual address and location, or postcode and region as this can make a significant difference to a premium.

“Consumers can either purchase insurance directly from an insurer, or via an intermediary.”[34]

Actually, you can’t. There are a number of insurance companies who will not deal directly with consumers and are only accessible to brokers.

- Resilium
- Lumleys
- Longitude/Vero
- No ISR policies can be bought direct from companies. However, this is probably for the best as they can be extremely complicated
- Etc., etc., etc

This limits a consumer’s accessibility to quotes and results in higher premiums due to commissions.

“To provide general insurance in Australia, an entity must be licenced by APRA.” [35]

There is one in the pipeline at the moment and whilst I realise APRA must check everything out properly and fully, why does it take over a year for a licence to be granted or refused? Where is the information of the application and its process kept? Can consumers get access to that information?

“Strata insurance is typically required by state and territory legislation to cover the estimated cost of replacing the common property of the strata scheme.” [36]

Actually, it has to cover the amount a valuer puts on the property as a replacement value for the entire scheme, professional fees, clearing the land, etc., etc., etc. In the circumstances where a complex has been completely destroyed, are you likely to build the same thing again?

Why can we not insure for market value of the units and land clearance? It’s a suggestion that has been raised before, and not by me. In this way unit owners would get the value of their property immediately, as if it had been sold, the land gets cleared and is owned by the unit owners who have the right to sell, or rebuild. Market value is easy to determine as Real Estate Agents do it every day using PriceFinder or RpData, and owners can get their lives back quickly.

“Broker member groups” [37]

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[33] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 67
[34] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 8
[35] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 9
[36] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 10
[37] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 14

There needs to be further investigation into these groups and whether they benefit the consumer, why and how. I suspect, but I don't know, that they don't.

"Steadfast Group consists of the Steadfast broker network and also Steadfast Underwriting Agencies." [38]

There is no requirement for disclosure of relationships between insurance companies and other entities. How many people are aware that BCB (Brisbane brokerage) and CHU are sister companies? It would be interesting to know what percentage of the policies arranged by BCB are put through CHU.

I believe these relationships should be declared to the consumer.

"In some regions the flood component (or flood loading) of premiums increased by over 400 per cent, and in one region by 700 per cent. Many suburbs in northern Australia saw significant premium increases of up to 360 per cent." [39]

Although the Queensland legislation made it compulsory for flood cover to be offered (residential only) it didn't make it mandatory.

However, a number of companies:

- made flood coverage mandatory with no opt out facility
- work off incorrect data (*article Townsville Bulletin October 24 2013 by Samantha Healy)*
- can't work off correct data as some Councils still haven't supplied it
- are still using postcode so houses on a hill are penalised because some are on the flat

and it was, and still is, generally a mess.

One consumer wrote this on the Internet:

*"RACQ recently sent my renewal notice for my home and contents (note, this is a house and not a strata title property) - I have never made a claim and yet the increase from last year's premium is about **350%** - I understand that flood insurance is now automatic but I can't see how this justifies this enormous increase - I will be going elsewhere."* I hope they succeeded.

RACQ even blamed mandatory flood cover for its rises in premiums. As reported in the Townsville Bulletin by Bianca Keegan, RACQ executive manager for insurance communications Mike Sopinski said high prices at RACQ were because flood cover was now included in every policy.

Flood cover should be automatically included in the coverage but an opt out facility should always be available to consumers.

"In 2011, one insurer decided to use premium adjustments to reduce its exposure to cyclone risk in general, it therefore determined to price its policies in northern Australia by between 20 to 40 per cent higher than one of its competitors" [40]

They also stopped writing new business through some of their channels. This saw premiums increase over 3 years by 100 per cent.

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[38] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 14
[39] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 83
[40] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 83

What it doesn't say is whether the competitor had already increased their premiums which would add to an even higher base.

**$20,000 to insure a Pimlico home? What the . . . ?**

# Insurer blows cover

[41]

This example included **$12,434.52** for flood cover not included in the previous year's premium.

"It will be an inevitable outcome that the technical price for properties with a high and extreme risk of flood will not be affordable for those policy holders." [42]

So, what are they supposed to do, drop out of the market?

Never again should consumers be faced with 200-600 per cent rises overnight with no warning. Premium capping should be mandatory.

> *'Having large premium decreases on renewals reduces our credibility. This is worse in the intermediary market where the intermediary sees this multiple times in contrast to direct customers who only see their own individual policies. Intermediaries want to see their commission income at least maintained, not reduced. This is a problem for them that has been raised in the past quite vehemently... Regions indicated that if the negative collars are excessive, intermediaries will demand that they individually reduce the collars to zero for their account no. or ask for commission rate increases. The regions said that they want to avoid both of these scenarios.*
>
> *Premium stability is highly important because the broker can move the entire portfolio if rates change too fast too quickly. And where rates are not generally required to increase by large amounts, it affords us the opportunity to move to technical rates more gradually, particularly if retention is moving towards its maximum levels. Balancing this, we need to get both our new business and renewal books as close to correct technical rates as quickly as possible to ensure that we get the right selection of risks and maintain profitability'* [43]

These are two examples used in the report. I have interpreted these as saying brokers and intermediaries (including Bodies Corporate Management companies) don't want premiums to come down as that reduces their commissions, so they put pressure on the insurance companies by saying they will remove their entire portfolio and take it to another insurance company that keeps their premiums high.

**IF** I have interpreted this correctly, is this bullying, intimidation, or even legal? It is certainly not in the interest of the consumer.

Action must be taken, and quickly, which is why Draft Recommendation 9, and Recommendation 11 are paramount for consumers to be protected from things like this.

"the insurer in the first example increased the amount of commission payable to brokers and recouped potential losses by increasing its base premium rates."[44]

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[41] Townsville Bulletin, Tony Raggatt 2012
[42] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 78
[43] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 15
[44] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 15

This is happening even though the Insurance Brokers Code states **it is an obligation of brokers to act in a consumer's best interest at all times**. Is - if premiums go down, commissions go down so we'll take our business elsewhere – acting in the consumer's best interest?

If an insurance company reduces its commissions to help consumers brokers no longer recommend the products, or only do so in high risk areas. [45] Is this acting in the consumer's best interest?

The NIBA needs to take action immediately.

"Further, it indicates that there are more consumers paying very high premiums in these areas. For example, in Townsville, Port Hedland, and Broome the upper quartile for nearly all the sample insurers is over $4000." [46]

I keep telling the ICA they can't justify premiums by using average or even median, they have to look at the coastal properties and their premiums separately from the inland areas not affected by cyclones. Although those insurance companies still pricing by postcode have a problem as Palm Island has the same postcode as Homestead which is west of Charters Towers.

The ICA stated in their submission to the NAIP Taskforce 2015: "*The median premium charged to strata unit owners in north Queensland is only $1,413 annually."* The report states the ICA as saying the median premium for north Queensland is around $1,350.

So, what is the median premium for properties deemed to be in a cyclone zone?

In their submission to the NAIP Taskforce the ICA showed an example of insurance quotes in north Qld

This is their actual example used in their submission:

| | Postcode 4825<br>Sum-Insured 400k<br>1980 Construction<br>$1,000 Excess<br>Specific Address in suburb of **Townview** | Postcode 4825<br>Sum-Insured 400k<br>1980 Construction<br>$1,000 Excess<br>Specific Address in suburb of **Soldiers Hill** | Postcode 4825<br>Sum-Insured 400k<br>1980 Construction<br>$1,000 Excess<br>Specific Address in suburb of **Mornington** | Postcode 4825<br>Sum-Insured 400k<br>1980 Construction<br>$1,000 Excess<br>Specific Address in suburb of **Sunset** | Postcode 4825<br>Sum-Insured 400k<br>1980 Construction<br>$1,000 Excess<br>Specific Address in suburb of **Breakaway** |
|---|---|---|---|---|---|
| Insurer A | $2,661 | $2,651 | $2,899 | $3,215 | $3,009 |
| Insurer B | $590 | $617 | $625 | $696 | $652 |
| Insurer C | $1,089 | $1,371 | $1,322 | $2,115 | $1,207 |
| Insurer D | $775 | $795 | $807 | $899 | $825 |
| Insurer E | $1,908 | $1,612 | $1,799 | $1,987 | $1,807 |

Postcode 4825 is **out west by Mt Isa**, which is not in a cyclone area (as far as we know).

a) Perhaps Insurer A, B, C, and/or D wouldn't quote for a cyclone area

OR

b) The premiums quoted for a cyclone area looked so bad the ICA chose Mt Isa instead

You have to ask what would the quotes be for similar properties in cyclone areas, pretending new business?

[45] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 194
[46] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 35 figure 3.13

**Box 12.3 Australian Government's Strata building engineering inspection scheme**[433 434]

In the 2014–15 Budget, the Australian Government allocated $12.5 million of funding to the Queensland Government for strata-title engineering assessments in north Queensland. The Budget Measures indicate the assessments will provide better information to insurers which will enable them to set premiums that more accurately reflect individual property risks.[435] The assessments will also help residents of strata-title properties to be fully aware of the risks to their properties from natural disasters. This will provide bodies corporate with an opportunity to take necessary action to mitigate those risks and reduce their risk assessment by insurers, and ultimately reduce insurance premiums in some cases. [47]

Please note: [48]

1. The money was assigned in the Federal budget of 2014-2015
2. The money was accepted by the State Government at the end of 2017
3. The Intellectual Property remains with JCU – flaw in contract as other areas will need to use this product and it has the potential to be used overseas
4. The request for a proper risk assessment should come from the Body Corporate Committee and not from a Body Corporate Manager (BCM). It's felt BCMs may try to do "deals" with the inspectors and request third party payments – as with insurance quotes
5. The report must be given to, and remain the property of, the Body Corporate Committee and not be given direct to the BCMs as its none of their business – **NUMEROUS** people want Body Corporate Management companies kept completely out of the equation. It seems that all the while BCMs get third party commissions direct from insurance companies and from their "preferred" brokers there's a conflict of interest
6. It's for the Body Corporate Committees to decide whether to use the report, not the BCMs
7. Are we going to get into the situation where insurance companies insist on having a report before they will even consider quoting?
8. The ICA and its members should have no access to any report produced without written permission of the Committee, due to privacy

People are nervous that the trial reports will find their way to insurance companies without the permission of the Committees.

This product, when its complete, should be expanded to home insurance, commercial etc. and not just strata.

Mitigation projects for all types of properties should be recognised by every insurance company and the discounts applied shown on the invoice so that consumers can easily see if their work has been recognised. I understand currently only Suncorp (not the Suncorp Group) and RACQ take any notice of mitigation works, and even then, the average cyclone discount in Queensland 2017-2018 was $350. [49]

"In some cases, Suncorp has taken hundreds of dollars off their premiums." [50]

Which had gone up thousands of dollars.

Mitigation should help to reduce technical premiums if its recognised. There is no proof it is happening on individual properties only on large scale projects such as the Roma levee.

[47] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 228
[48] Emails to Margaret Shaw regarding the JCU project
[49] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 225
[50] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 224

“some insurers also consider that there is currently insufficient historical data to accurately take mitigation works into account.” [51]

That would be right, when will the historical data be enough?

Allianz seems to be the only insurance company that recognises there is a major problem. In its report to the NAIP Taskforce Allianz came down in favour of a reinsurance pool as being the best and easiest solution. [52]Its ideas should be explored further.

“Consumers who remain loyal to a single insurer have ended up paying higher premiums at renewal” [53]

Where is the logic in this and how can it be prevented? It means in the cases where only highly selective properties are being offered new business, they’re actually getting a discount and existing customers are paying for it because they can’t take their business elsewhere.

“The Australian Government noted these recommendations and referred them to the state and/or territory governments who retain overall responsibility for regulation of strata managers.” [54]

When will the Senate recommendations regarding BCM commissions (Draft Recommendation 9) be implemented by the State and Territory Governments? Have they even started to discuss the issue?

“Some strata management contracts expressly preclude the body corporate from arranging its own insurance.” [55]

I think you should look at the agreements in **retirement villages in particular**, where a management company is in charge.

This practice should not be legal, neither should the charging of an additional fee by the strata manager if a body corporate arranges its own insurance.

“with approximately 24 per cent of the total premium paid by consumers in northern Australia attributed to an incentive of some description. In some instances this figure can exceed 30 per cent of the total cost of the product.” [56]

The amount of commissions and other payments made to intermediaries and referrers was $62 million in northern Australia during 2017-2018.

We need capping of commissions, as well as premiums, and a move to set-fee brokerage commissions.

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[51] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 224
[52] Northern Australian Insurance Premium Taskforce Interim Report submission by Allianz Australia Insurance Ltd. Page 3
[53] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 132
[54] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 192
[55] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 186
[56] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 190

"The ICA submits that, despite these market conditions, consumers in northern Australia do have a strong choice of insurance providers" [57]

I ask the ICA that when the renewal quotes come out for complexes in the Whitsunday area, Cairns and Townsville they get each one three quotes because they can't get them themselves.

Recently, as Karl Sullivan of the ICA would know, complexes were unable to find more than one quote once AIG left the market. I actually asked him for help for complexes in the Whitsunday area.

The consumer needs to know from their broker, and any other intermediator, who is being approached for quotes, and more importantly, who is not being approached.

In the case of strata the Committee has to sign an authorisation for a broker to act on their behalf, this makes sure insurance companies are not asked for multiple quotes for the same property. However, currently, this means that since the consumer is unaware of who is being approached, contact with other insurance companies is prevented.

"enhanced disclosure practices in the insurance sector have been referred to the Treasury to develop proposals" [58]

Consumers need a date.

From the Productivity Commission's recommendations (14.2):

"insurers should provide an up-to-date list of the brands they underwrite to ASIC and that ASIC should transparently publish this information as a list on its website." [59]

Consumers need this, when will it be implemented?

Too many Body Corporate acts, they are different for each State and Territory. This means when a consumer moves interstate, they are not aware the rules have changed.

Can we do anything about this?

In December 2017, the Australian Government announced that it would extend the unfair contract term to include insurance contracts. In June 2018 the Treasury released a paper to implement this policy.

Changing the laws will provide consumers with the same protection available to consumers who take other financial services products and services.

It's been noted that other jurisdictions apply the Unfair Contracts to insurance policies, such as UK, Europe and New Zealand, so why shouldn't Australia?

When is it likely to happen?

[57] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 110
[58] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 155
[59] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 241

Also, in December 2017, the government indicated it would proceed with reforms recommended by the Senate Committee report to provide increased accountability and transparency within the industry, as well as proposals to increase consumer understanding of insurance.

18 months later and nothing has happened.

Is it possible to encourage insurance companies to allow different excesses for different risks? You can in a very limited way for strata, but you generally get what the insurance company wants to give you and not necessarily what you want to have.

With home insurance the one excess applies to every event, so consumers have no way of arranging an excess for water damage different to an excess for fire, different to an excess for cyclone damage.

## What we have to look forward to

Since 2011 I have submitted to every Inquiry (Senate included), attended every investigation, been part of the NAIP Taskforce Advisory Panel (2015) and still nothing has been done.

Meanwhile what happened in 2010-2011, and almost every year since, can happen again:

> to help account for the cost of the recent catastrophes to date as well as an expected rise in reinsurance premiums, [we] will be increasing base rates across Australia by 5 per cent and in QLD flood affected areas specifically by 20 per cent. We will also be introducing a flood risk loading based on postcode. [60]

Hard luck Townsville, me included.

> Such adjustments represent decisions by insurers to actively price themselves out of a segment of the market. Premiums are increased to either slow or stop new business, or to discourage existing customers from maintaining their coverage. At the extreme, an insurer may elect to withdraw from the area completely. [61]

Insurers will continue to encourage consumers to go uninsured.

> As we reported in our discussion in chapter 3, there are many areas in northern Australia facing an average annual home and contents premium above $4000. In its submission, Allianz said the cost of home insurance could be equivalent to the annual income of a person on the aged pension that might own such a property.[244] [62]

Home insurance equivalent to the annual income of a person on the aged pension, Allianz is right. Unfortunately, Allianz seem to have been the only insurance company who has consistently <u>not followed</u> the lead of the ICA.

Consumers will continue to focus on the price of a policy and not the product itself. This will continue until the products are affordable.

> - Local residents and property owners across northern Australia participated in our inquiry with a high degree of emotion. They are very concerned about the affordability of insurance and the impact this is having on the liveability of their community.
> - We heard about significant rises in premiums and how worried consumers are that they will no longer be able to afford insurance. They are anxious about the risks they face if they are under-insured or not insured. Many people told us they had already tried everything to keep their premiums affordable but were now uninsured. [63]

Communities will continue to suffer.

Strata owners will continue to be taken to court for bankruptcy.

The mental strain this puts on people and communities is enormous.

**"Insurance is not a luxury, it is a necessity, and it has to be affordable." (M. Shaw)**

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[60] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 86
[61] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 93
[62] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 166
[63] Northern Australia Insurance Inquiry First Interim Report 2018 – ACCC page 152