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Re : Addressing the High cost of home and strata title insurance in North Queensland

Attention : Hon Mathias Cormann

Dear Sir,

I am writing to you as a concerned citizen of Cairns and a person who has been involved in the Insurance industry for many years. I would thank you for the opportunity to comment on this issue.

I would firstly refer to the Foreword in your Discussion Paper and am disturbed that this calls for input on three options only. I would provide my feedback on these issues as follows :

Comparison Web site – I do not believe this will have any effect on reducing insurance premiums. Insurance policies are complex products with many variables as is being seen in the direct insurance market where price is the driver of the purchaser, sometimes to their detriment . The only way to minimise that issue, would be to have insurers quote per the Prescribed contracts as outlined in the 1984 Insurance Contracts Act. Would that reduced insurance premiums though ? I don't believe so.

Engineering Assessments of Strata Title properties – One insurance company is currently reviewing all its insured Strata properties in North Queensland. At no cost to the insured. After reviewing 10 properties, a 12 to 15 % premium reduction has been received on those properties. When the premiums went up by over 200 % it seems to have had little effect.

Expand North Queensland Markets to encourage foreign insurers – This quite honestly makes no sense at all. Australia has more than enough insurers, but many

of them do not wish to expose their balance sheets to the risks in North Queensland. And why if you were a Foreign Insurer would you want to write business purely in North Queensland?

The three options as commented on above, do not address the key points of this issue, which are:

- The availability of Insurance coverage for people living and operating in North Queensland
- And subsequently the affordability of insurance coverage for people living and operating in North Queensland

The question we should ask is, "Why don't insurance companies want to write risks north of the 26th Parallel?"

The answer is, "That their reinsurance costs and exposure to their balance sheets of writing business in North Queensland is too high, specifically in relation to Cyclone and Flood exposures." On page 4, Figure 4 of your Discussion paper, you show that approximately 40% of premiums relates to Cyclone cover and approximately 27.50% of premiums relate to Storm cover. It is interesting to note, that under 15% of premiums related to working losses as opposed to over 25% of premiums in Brisbane. This seems to illustrate that insurance business is good in North Queensland when a Cyclone or Storm does not hit.

So how then do we address the two key points noted above of availability and affordability of insurance in North Queensland?

The State and Federal Governments have to take the Named Cyclone issue away from the insurers and set up a pool to insure that part of the risk, similar to the New Zealand Earthquake Commission.

Under that process, the risk of Earthquake is taken out of the Domestic Earthquake policy and is insured with the Earthquake Commission, up to a sum insured of \$100,000 for buildings and \$20,000 for contents. This is for a premium of NZ \$180 plus GST. If an insured wishes to insure their property for more than the EQC Limit, then they go back to the general insurance market. The benefit to the insurance company is that they have a \$100,000 excess before they are exposed to a claim, if at all, hugely limiting their risk.

By mirroring this, it would draw more insurers back into the market in North Queensland, as their catastrophe risk would be greatly reduced if not eliminated and as per Figure 4 in the Discussion paper, the premium allocated to the underlying losses in North Queensland are very low.

This would have the effect of solving the availability and affordability on Home and Strata Insurance in North Queensland and I would also draw to your attention, that in North Queensland, there are only two insurers insuring Farm properties, that is CGU and QBE. WFI have recently been sold to IAG, who own CGU and indeed WFI have not been writing new business in North Queensland for approximately two years.

I would also point out, that when the insurance market effectively removed Terrorism cover from their coverage's, the Australian Federal Government of the time created the Australian Reinsurance Pool to cover that risk. As at the end of 2013, the Fund has Nett Assets of \$432, 642,000 and paid Dividends to the Federal Government of \$218,990,000.

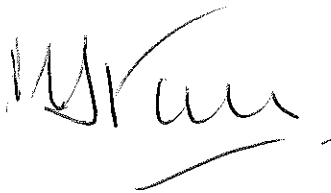
This body has the capacity to arrange through its current reinsurers a facility for a Named Cyclone Coverage, which could then be administered by the Queensland State Government and guaranteed by the Federal Government.

In normal circumstance, industry should be left to resolve its own issues. However we now have a situation in North Queensland, where we basically have a market failure.

In summary, my solution is for Government, both State and Federal to step in and address the issue, otherwise, if or when another Cyclone hits North Queensland, those people who are either uninsured or underinsured, will be financially ruined and will seek financial support from the Governments, which they may or may not be able to provide.

I trust this assists you in coming up with a solution to this problem and would ask if I could be included in the continued discussion to resolve the matter.

Kindest regards,

A handwritten signature in black ink, appearing to read 'P Stace', with a horizontal line underneath.

Philip Stace

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28th May 2014

