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**Addressing the high cost of home and strata title insurance in North Queensland**

Suncorp Group welcomes the opportunity to comment on the issues raised in the Federal Government's discussion paper *Addressing the high cost of home and strata title insurance in North Queensland*. As one of Australia's largest general insurance groups, Suncorp is acutely aware of the impact natural disasters can have on the community.

A key impact of natural disasters is the effect they have increasing insurance premiums. High levels of natural disaster risk are being reflected in high insurance premiums for Northern Queensland. In response, it is crucial that a coordinated and long-term approach to disaster resilience is developed to reduce natural disaster risk. This will reduce the cost of disasters and allow the highly competitive insurance market to deliver lower insurance premiums. It will also support increased productivity and prosperity for Northern Queensland.

Suncorp's detailed response to the Federal Government's proposals is enclosed. Also attached is our recent submission to the Productivity Commission inquiry into Natural Disaster Funding Arrangements, which provides further information about Suncorp's position on natural disaster risk management.

Should you have any further questions regarding this submission, please contact me on 02 8121 0277 or at [Duncan.Bone@suncorp.com.au](mailto:Duncan.Bone@suncorp.com.au).

Yours sincerely

Duncan Bone  
**Executive Manager, Public Policy**



# Addressing the high cost of home and strata title insurance in North Queensland - Discussion Paper

**Suncorp General Insurance Submission**



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## Executive summary

Suncorp Group welcomes the opportunity to comment on the issues raised in the Federal Government's discussion paper *Addressing the high cost of home and strata title insurance in North Queensland*.

Suncorp Insurance has a long and proud history of protecting the Queensland community from the immediate and severe cost impact of disasters. We look forward to working with the Queensland and Federal Governments to ensure that we are able to build the resilience of our communities and deliver the insurance our customers need.

In Australia, no State population faces a greater risk of natural peril than Queensland. Within the State, the Northern region faces the greatest exposure in terms of both frequency and severity of events and populations at risk, driven largely by cyclones.

As a result, insurance affordability is an issue in North Queensland - as it is in high risk regions across the world. As the Australian Government Actuary noted in his initial examination of strata insurance over the eight years until 2012, for every \$100 of premium charged insurers paid out \$130 on claims and expenses.<sup>1</sup> The strata market is only now returning to moderate profit.

The role of the industry in response to this issue must be assessing where product design and distribution changes may assist in easing affordability pressures for those unable to pay premiums for high risk properties while still meeting regulatory, prudential and shareholder needs.


Suncorp is currently developing an affordable product for renters in partnership with community services organisation Good Shepherd, having recently signed a Memorandum of Understanding to develop a sustainable and affordable home product targeting those at risk of non-insurance.

However the issue is larger than the insurance industry. Australia has a competitive and contestable insurance industry, characterised by a market that is "largely open to the entry of new insurers, including foreign insurers" with "an intensification of competition and contestability broadly across the general insurance sector in recent years"<sup>2</sup>. It is certainly true that at this juncture - "areas such as North Queensland have comparatively few[er] insurers prepared to do business in property insurance,

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<sup>1</sup> Australian Government Actuary, *Report on Investigation into Strata Title Insurance Price Rises in North Queensland*, AGA, Canberra, October 2012, p6.

<sup>2</sup> The Department of Treasury, *The Department of Treasury's submission to the Financial System Inquiry*, The Treasury, Canberra, April 2014, p64.



due to concerns over storm and cyclone risk.”<sup>3</sup> The barrier to competition – as is the case across other similar areas across the world – is the high level of disaster risk.

The only way for the Government to attract competition to the market is to better address the underlying risks and collect more reliable hazard data to reduce uncertainty for consumers and insurers. We believe such investment, along with tax reform to reduce the burden on premium holders, is the key to increasing competition and reducing premiums in the long-term.

Australia lacks a co-ordinated and long-term approach to better protecting communities at high risk of natural disasters. The affordability issues highlighted in the discussion paper are a clear market signal that this gap must be filled.

Experience has shown comprehensive mitigation and resilience programs can reduce home insurance premiums by up to 80 per cent. In St George where a levee has been completed, anecdotal evidence suggests the subsequent reduction in risk has attracted more insurers to the area.

Economic modelling demonstrates the benefits from this would extend across the affected communities into the Australian economy. Investing \$250 million in mitigation and resilience measures per year over ten years would drive a \$6.5 billion increase in GDP.<sup>4</sup>

By contrast, the proposal to build an aggregator may decrease cover and increase costs for insurers without stimulating competition or driving premium reductions. An analysis of the aggregator heavy UK market suggests aggregators do not place additional downward pressure on premiums where risk is the underlying issue, nor do they increase transparency.


Suncorp also has serious concerns about softening regulations to attract unauthorised foreign insurers to high risk areas. Such a move would increase the risks being faced by consumers by removing protections, such as the Financial Service Ombudsman. It would also increase the risk of poor product coverage and of these insurers defaulting. Ultimately, this would shift the onus onto government to cover any shortfall through additional disaster assistance funding and compound the affordability issue in the medium to long-term.

Suncorp notes many of the questions outlined in the discussion paper are also being looked at by the Financial System Inquiry, the Australian Government Actuary, the Productivity Commission inquiry into Natural Disaster Funding and the Competition Policy Review. It may be prudent to await the outcome of these other inquiries which

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<sup>3</sup> The Department of Treasury, *The Department of Treasury's submission to the Financial System Inquiry*, The Treasury, Canberra, April 2014, p64-65

<sup>4</sup> KPMG, “*Risk Apportionment in the Insurance Sector*”, Canberra, March 2014, p3.



are examining, on a more systemic level, issues around competition and the opportunities provided by technology to better inform consumers.

## **Suncorp overview**

Operating some of the country's most trusted insurance brands, Suncorp is the leading general insurance group in Australia. We offer a range of personal and commercial insurance products protecting the financial wellbeing of millions of Australians. As a Group, Suncorp has around 15,000 employees and has more than nine million customers. In our General Insurance business alone, in 2012-13 Suncorp paid out \$5.8 billion in insurance claims, averaging more than \$15 million each day.

Suncorp Personal Insurance offers a range of insurance products including car, home and contents, travel, boat, motorcycle and caravan insurance. The key to Suncorp's success in personal insurance is its portfolio of well-known brands. These include Suncorp Insurance, AAMI, GIO, Apia, Vero, Shannons, Just Car Insurance, Insure My Ride, Bingle, Terri Scheer, CIL Insurance and Resilium. These brands have built reputations for insurance innovation, outstanding customer service and trustworthy products.

### **Supporting communities**

Suncorp works with communities across Queensland on disaster mitigation and resilience projects, providing data and insight to government, community groups and disaster experts.

Suncorp has an ongoing relationship with James Cook University and Southern Queensland University, working on projects to better understand the risks being faced by communities in the region and what could be done to reduce them.

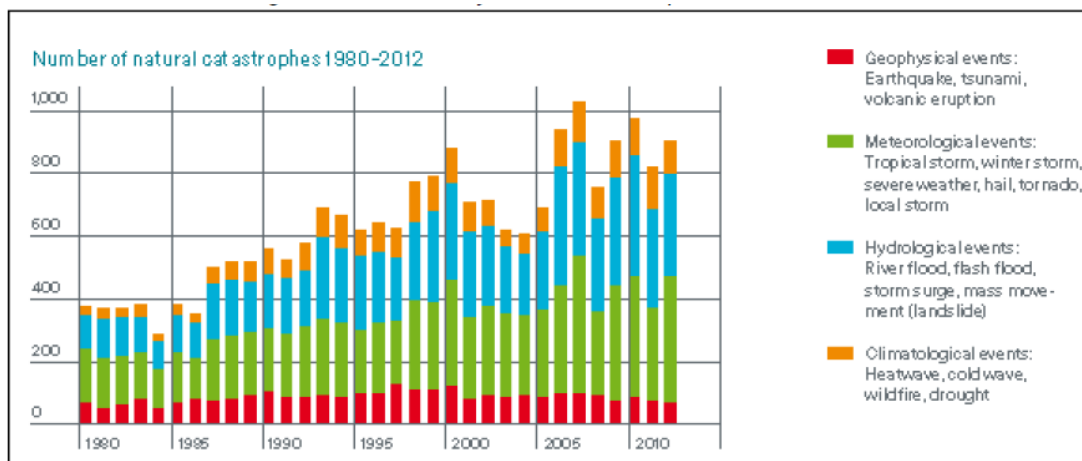
We also work with local councils in high risk communities to share our risk data with them and to assess the effect of mitigation projects on insurance premiums.

# Natural disaster vulnerability in North Queensland

## High risk regions

Over the last few decades, across the globe there have been escalating impacts of natural hazards. According to the Institute of Actuaries of Australia, global trends have shown a significant increase in the frequency of shock events over the past sixty years as shown in Figure 1. This has been driven by population growth, infrastructure density and domestic migrations to more vulnerable regions.<sup>5</sup>

FIGURE 1: Number of catastrophes 1980-2012<sup>6</sup>



This trend is expected to continue in the future as populations expand into regions highly susceptible to natural disasters. In a local context, the Business Roundtable for Disaster Resilience and Safer Communities White Paper noted that by 2050, natural disasters may cost the Australian economy \$23 billion a year.<sup>7</sup>

## Trends in Queensland insurance claims

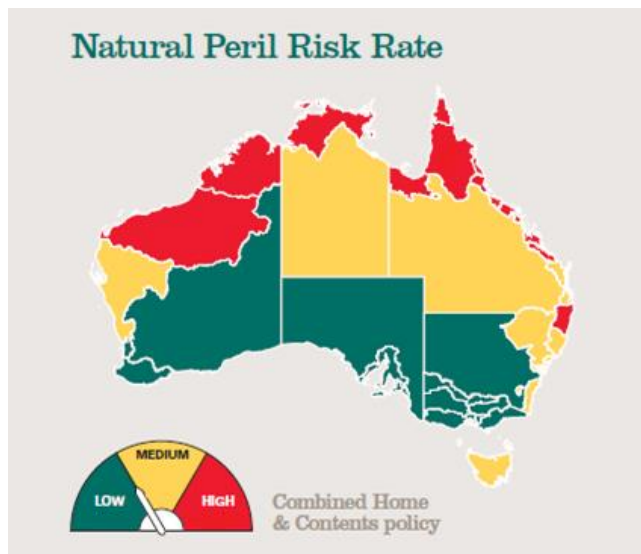
Queensland is the State with the most population at the greatest risk of natural perils in Australia. Within the State, the Northern region faces the greatest vulnerability driven by exposure to cyclones.

<sup>5</sup> KPMG, *Risk Apportionment in the Insurance Sector*, March 2014, p3.

<sup>6</sup> *Ibid.*

<sup>7</sup> Deloitte Access Economics, *Building our nations resilience to natural disasters*, June 2013, p10.

FIGURE 2: Suncorp's view of natural peril risk across the country



Queensland has a history of a consistently higher levels of claims paid out as a proportion of gross written premiums than other States. The July 2010-June 2013 Australian Prudential Regulation Authority (APRA) data shows 90 per cent of premium was paid out as claims, more than 10 per cent above the nearest State. This is further evidence that the premiums being charged in North Queensland reflect the risks in the area.

Suncorp's own claims experience reflect this trend, having paid more than \$1 billion in claims to our customers – both catastrophes and other claims - in North Queensland over the past five years. Across the industry, since 2006 insurers have paid out about \$3.4 billion in claims through declared catastrophes in North Queensland, which currently has an estimated population of just over 700,000.<sup>8</sup> This only takes into account the damage caused by declared catastrophes and excludes 'everyday' claims.

<sup>8</sup> Queensland Department of Communities, Child Safety and Disability Services 2013, accessed on 12 June 2014 <<http://www.communities.qld.gov.au/childsafety/about-us/our-performance/regional-data/north-queensland-region>>



## Competition in the North Queensland market

The Australian insurance market is competitive and there has been “an intensification of competition and contestability broadly across the general insurance sector in recent years”<sup>9</sup>.

In general, there are relatively low barriers to entry in the domestic insurance market, as evidenced by new entrants such as Youi, Budget Direct and non-traditional entrants such as Coles and Woolworths. The key existing barriers are Australia’s prudential requirements. Suncorp strongly supports robust prudential regulation and believes this is imperative to the stability and security of our financial system and consumer protection.

There is scope to reduce these standards in certain areas where the requirements are adding cost without consumer benefit, as Suncorp noted in its FSI submission<sup>10</sup>. Broadly, however, these regulations work well to protect the Australian community.

The market is more concentrated in high risk areas, including North Queensland. This was noted by Treasury’s recent submission to the 2014 Financial System Inquiry which observed that “areas such as North Queensland have comparatively few insurers prepared to do business in property insurance, due to concerns over storm and cyclone risk.”<sup>11</sup> The latest Roy Morgan market share data shows that at least nine separate insurers are operating in North Queensland to varying degrees.

A number of parties have called on the Federal Government to take action to generate more competition in the North Queensland insurance market. The discussion paper proposes attracting more foreign insurers into the region. Suncorp, the largest insurer in the region, would welcome further competition from other companies on a level playing field.

However, Suncorp believes given the key limiting factor to competition in North Queensland is the high level of risk in the region, limiting the returns being generated on the capital needed to provide cover. This last point is partly evident in the APRA data in the discussion paper, which show a much higher proportion of claims compared to premium collected paid out within Queensland than other Australian states, confirmed by both the recent AGA reports into strata title insurance.


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<sup>9</sup> The Department of Treasury, *The Department of Treasury’s submission to the Financial System Inquiry*, The Treasury, Canberra, April 2014, p64.

<sup>10</sup> Suncorp General Insurance, *Submission to the Financial System Inquiry*, March 2014.

<sup>11</sup> The Department of Treasury, *The Department of Treasury’s submission to the Financial System Inquiry*, The Treasury, Canberra, April 2014, p65





Suncorp firmly believes that the only way to encourage more insurers to compete in North Queensland is to either wait until more authorised insurers view the market as attractive or by reducing the risk. The only way to reduce risk and its associated costs is to invest in mitigation and resilience programs that limit exposure and reduce vulnerability.

## **Other means of reducing premiums in North Queensland**

### **Insurance product responses**

Suncorp is currently working with community services organisation Good Shepherd Microfinance on developing an affordable product for high risk renters. A memorandum of understanding has also been signed to develop a sustainable lower coverage, but more affordable, home insurance product targeting those at risk of non-insurance.


Suncorp is working with Good Shepherd Microfinance to ensure due diligence is applied to the operation of these products and that the trade-off between coverage and premium is appropriate. Regardless, while such innovations will assist certain consumers they will not address the underlying issue of communities at high risk that is being highlighted by the premium price signal discussed within the paper.

### **Implement tax recommendations**

Insurance taxes, duties and levies currently form a significant barrier against Australians purchasing affordable insurance cover. Insurance premiums are currently subject to the imposition of multiple taxes, with the Australian Bureau of Statistics reporting that insurance taxes contributed \$5.39 billion in taxation revenue across all levels of government in 2011-12. In 2011-12 in Queensland, insurance taxes accounted for \$563m of the Budget, representing about 4 per cent of total tax revenue for the State.

The need for insurance tax reform is particularly clear when taxation revenue growth is considered. Insurance taxes are applied as a percentage of premiums meaning that as premiums increase due to extreme weather costs and capital requirements, additional taxes are collected from the community. In Queensland, when combined with the GST, this tax impost adds up to around 20 per cent of all insurance premiums, proportionally burdening those at high risk substantially more than other the majority of consumers.

Suncorp strongly supports recommendation 79 of *Australia's Future Tax System* which recommends that, “[a]ll specific taxes on insurance products, including the fire



services levy, should be abolished.”<sup>12</sup> In Queensland, we recommend the State Government immediately look to reduce the stamp duty collected on household insurance.

## **Investing in mitigation and resilience**

Suncorp believes there is a strong role for all levels of Government to promote resilience both in North Queensland and across other high risk regions in Australia.

Risk is driven by a combination of vulnerability and exposure. There are numerous opportunities to enhance resilience acting these elements. Some areas for exploration are outlined below. More detail can be found in Suncorp’s submission to the Productivity Commission’s review of disaster funding or our previous Risky Business paper, which has been included as in the appendix to this submission.

### **Better natural peril data**

It is vital that better, centralised hazard data is collected to share directly with consumers to better inform their decisions and with insurers to allow insurers to more accurate risk pricing. More accurate data is likely to allow more competition in the insurance market but reducing uncertainty for insurers who do not have a claims history in the area.

### **Economic benefits beyond premiums**

Appropriate mitigation and resilience does not simply reduce premiums. Addressing the underlying risk communities face have much broader social and economic benefits. KPMG’s study into risk apportionment in the insurance sector, commissioned by Suncorp, examined the economic effects of investing in mitigation across Australia<sup>13</sup>. The study found a structured mitigation provides a GDP boost felt across household consumption, exports and imports, with a lower need for investment capital and returns due a reduction in rebuilding activity. This means that investing \$2.5 billion in mitigation and resilience over ten years would not just reduce high premiums across the country, but also drive a \$6.5 billion increase in GDP.

### **Limiting exposure**

A key element of mitigating natural disaster risk is limiting exposure to natural hazards in the first place. An effective way of limiting exposure is land-use planning. Our expanding built environment creates a clear need for risk-informed urban planning that helps to manage exposure to natural hazard risks. This was highlighted in the National Strategy for Disaster Resilience, which states:

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<sup>12</sup> Australia’s Future Tax System Review, *Final Report: Part 2: Detailed Analysis – Volume 2*, Canberra, 2010, p474.

<sup>13</sup> KPMG, *Risk Apportionment in the Insurance Sector*, March 2014, p3.



*The strategic planning system is particularly important in contributing to the creation of safer and sustain-able communities. Locating new or expanding existing settlements and infrastructure in areas exposed to unreasonable risk is irresponsible.*<sup>14</sup>

Accounting for risk in the planning process is crucial for ensuring that new developments are exposed to acceptable levels of personal and financial risk. While cyclone risk is less localised than say bushfire, planning decisions can still reduce associated risks storm surge, flooding and other effects.

### **Mitigation and resilience programs**

The most effective lever to reduce vulnerability to natural disasters like cyclones is increasing resilience. The Productivity Commission has recognised the importance of mitigation in reducing insurance premiums, concluding that “increased government spending on disaster-mitigation infrastructure could reduce insurance premiums as well as the total economic impact of disasters.”<sup>15</sup>

Over the course of the past few decades, a number of examples have shown the importance mitigation and resilience can play in reducing the impact and costs of natural disasters on Australian communities. Following the devastation of Cyclone Tracy in 1974, disaster wind resistance standards were significantly increased through building codes. This meant that every house built since the code came into force had to meet these new standards. In 2006 Cyclone Larry damaged a number of homes in Innisfail, which were subsequently repaired or rebuilt subject to the new stronger building code.

In 2011 when Cyclone Yasi again impacted Innisfail the rebuilt areas saw average repair costs of \$56,000. This was almost half of the \$110,000 repair costs in nearby Tully and Cardwell that were largely built prior to the new cyclone building standards.

If a house built in 1974 was at high risk of cyclone, consumers might pay \$500 as part of their premium to cover this risk. However, the additional resilience of a house built in 2014 to current building code standards would reduce this component of their premium to \$200. Across the different perils covered by the policy, the more resilient standards of the current building could add further discounts.

There are some concerns from the Master Builders Association that homes in the region are not being built to the cyclone proof standards that protect these buildings.<sup>16</sup>

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<sup>14</sup> Council of Australian Governments, *National Strategy for Disaster Resilience*, February 2011, p11.

<sup>15</sup> Productivity Commission, *Barriers to Effective Climate Change Adaptation Inquiry Report*, 2013, p310.

<sup>16</sup> <http://www.abc.net.au/news/2014-02-24/mba-worried-some-mackay-houses-not-meeting-cyclone/5278944>



Further improvements to the building code could reduce the risk even further. Additionally, a program to retrofit and accredit resilient houses to gain premium discounts, could drive further discounts for consumers at risk.

The cost of addressing past mistakes in land-use planning and building codes at the individual building level means that it is often more cost-effective to implement a community-wide risk reduction initiative, such as a levee. Figure 3 compares the average home insurance premiums between three towns with flood mitigation and three towns without. The communities with flood mitigation not only avoided the devastating effects of flood damage, but home owners also experience reduced insurance premiums. A pathway to this is outlined in Figure 4.

**FIGURE 3: Average premium comparison between mitigated communities (Home Insurance)**

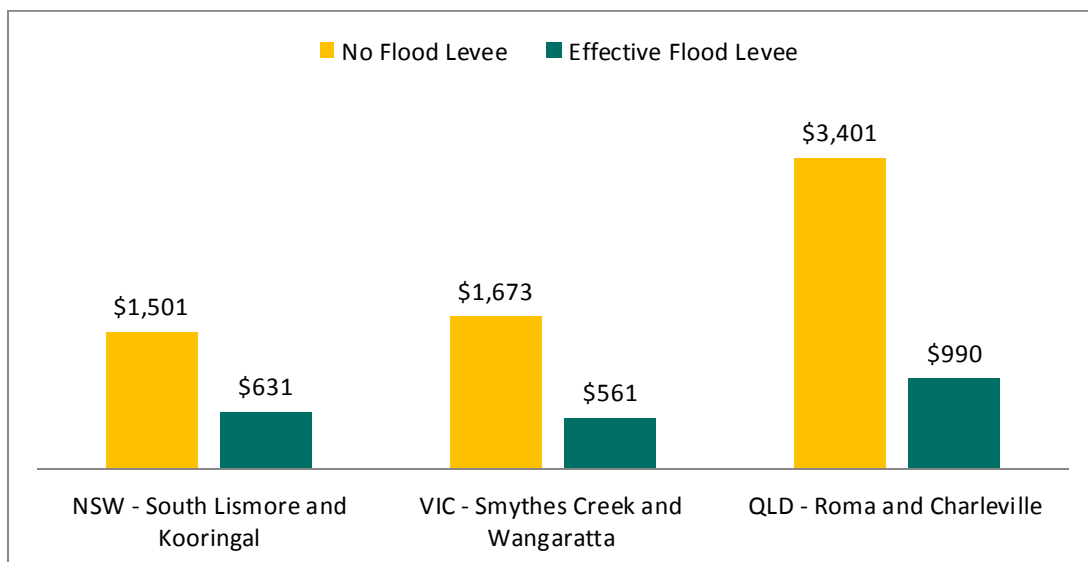
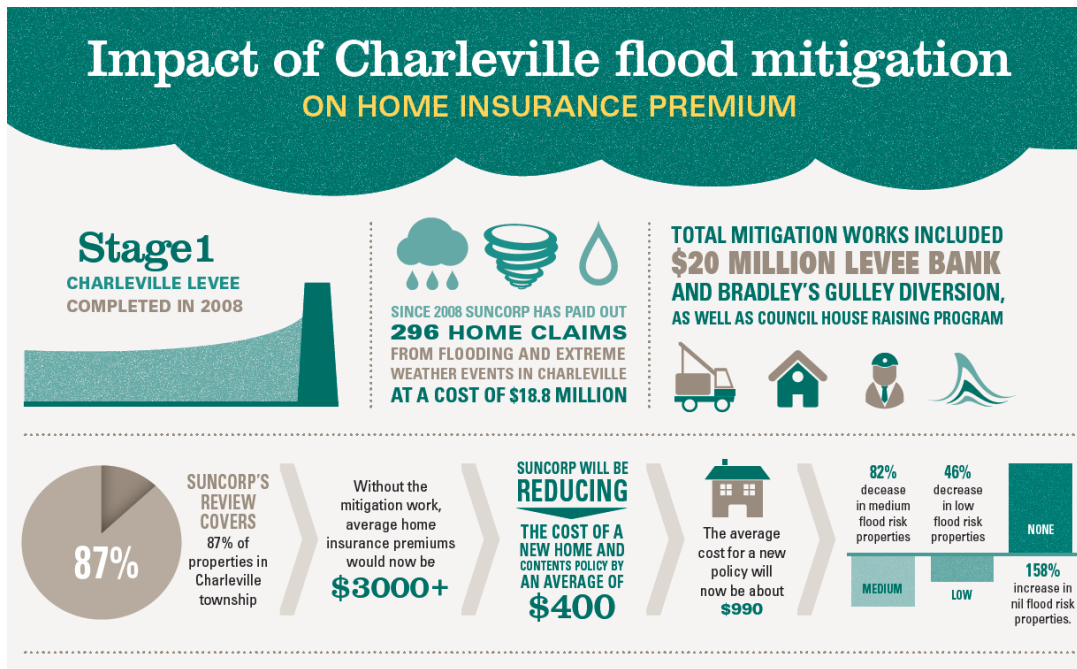


FIGURE 4: One mitigation project leading to lower premiums





## **Development of an insurance website/aggregator**

Consumer awareness is vital to a well-functioning market place. Suncorp is committed to providing our customers with timely and easy to understand information about our products, and invest significant resources into this. Suncorp also support industry initiatives to improve financial literacy, such as the Insurance Council of Australia's (ICA) recently launched "Understanding Insurance" website (<http://understandinsurance.com.au/>).

Shopping around to get the best deal on the product most suited to your personal needs and comfort with risk is vital. As well as the industry itself, independent third parties play a vital role in assisting consumers to make sound decisions when purchasing insurance products and some already allow consumers to compare products. Suncorp works with organisations such as Choice, as well as other financial advice media, who provide detailed reviews of our products and comparisons against competitors based on features and price to derive an appropriate view on the value of the product. Suncorp also has a long history of working with insurance brokers, experts who provide a range of products and advice to consumers, focusing on one-to-one interactions that aim to tailor products to needs.


Suncorp values its direct relationship with consumers, and does not currently engage with website aggregators due to concerns outlined below.

### **Insurance comparison websites**

The discussion paper proposes the introduction of an aggregator into the North Queensland market as a means of increasing transparency and possibly driving price competition. Suncorp is concerned that this proposal, whilst well intentioned, would not have any impact on competition in the region, but instead could have the perverse effect of reducing coverage or increasing prices through compliance.

This issue of coverage was previously exposed in the 2010-11 summer of disasters, where many people were left unprotected from riverine flood, with many likely to have purchased insurance based on price and not coverage. Subsequently many insurers have introduced flood cover to their home policies, which in part may be contributing to some of the affordability issues.

The unique and largely intermediated nature of strata title insurance reflects the diverse nature of Australian strata developments. Many policies are manually underwritten due to the complexity of the developments, making a strata title



aggregator unfeasible for all dwelling sizes beyond showcasing availability from providers – a small part of the strong service proposition already provided by skilled insurance brokers in the region who distribute the vast majority of strata insurance.

### **The UK market example and comparison**

It is not clear whether aggregators increase competition or transparency to benefit consumers. While the discussion paper notes that aggregators in UK market are reported to have placed downward pressure on premiums, the causal link between changes in UK motor premiums and aggregators is unproven.

Instead, an analysis over a longer period provides evidence that insurers' inherent commitment risk based premiums remains the largest driver of affordability.

According to the longest running UK motor premium index<sup>17</sup>, from 2000 to 2006 motor premiums remained relatively flat.

By comparison in Australia over a similar length of time, 2008 to 2014, motor insurance premiums have followed a similar flat trajectory without Government intervention or the significant penetration of aggregators into the market<sup>18</sup>.

Perhaps more importantly, in the UK from 2007 to 2011, motor premiums almost doubled. They fell in 2012 but are still nowhere near the 2006 levels.

In the UK, a sharp escalation in accident injury claims is often credited with this increase in premiums, and legislation to reduce them has been introduced. A similar situation can be observed in North Queensland, where claims experience from recent disasters has uncovered higher risk that has driven premium increases.

Another consideration is aggregators' possible effect on consumer satisfaction. UK insurers' motor claims service rates are markedly lower than in Australia.<sup>19</sup> Suncorp values the direct relationship it maintains with its personal insurance customers from discovery and sale through to the claim, which provides us with the opportunity to manage expectations from start to finish and provide a better service. When working with insurers brokers, their experience, advice and advocacy adds significant value. Working with an aggregator could reduce this.

In terms of aggregators increasing transparency, there are also significant concerns within the UK market. In 2013 a report by the statutory consumer advocate Consumer Focus stated:


*The research found that price comparison websites were a useful platform for a basic search, displaying a high proportion of relevant search details.*

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<sup>17</sup> AA British Insurance, *AA British Insurance Premium Index 2014 Quarter 1*, United Kingdom, April 2014.

<sup>18</sup> Suncorp internal data on average motor premium levels across the industry.

<sup>19</sup> Capgemini and Efma, *World Insurance Report 2013*, Capgemini Australia, 2013, p20.



*However, consumers should not automatically assume that a price comparison website will save them money on their purchase. The research revealed that it was only true in 21 per cent of cases.<sup>20</sup>*

In addition, as noted in the discussion paper, the UK Financial Conduct Authority recently initiated a review of aggregators, stating:

*A key concern is the expectation gap – where people believe they are getting a good deal because they are saving money initially, only to find they are not covered as comprehensively as they thought when they make a claim.<sup>21</sup>*

Suncorp shares these concerns. The Australian home insurance market has a diversity of products with different coverage options targeted towards different consumers who may want different levels of cover and risk.

All current commercial website insurance aggregators are transactional rather than advisory in approach, focusing on price rather than product features. They are also middlemen, charging commissions and fees for their services. Transparency for consumers must provide an insight into the value of the insurance products - a mix of the coverage provided against risks to the property against the price.

It is unclear, based on the home insurance examples provided within the discussion paper and the commercial aggregators globally, how these sites would increase transparency for consumers beyond highlighting availability and variability in price. The only example to provide a mix of features is the government-run Private Health Insurance Ombudsman comparison, where prices are regulated.

It is for these reasons that Suncorp does not support a government-funded aggregator or the mandated introduction of a commercial aggregator into the North Queensland market. Suncorp and the majority of our competitors' home products are already readily comparable through independent third parties such as Choice, including a full analysis of features and indicative prices that showcase the value of the product to the consumer. Direct prices are readily available in minutes through insurers' own websites or call centres.

It is also questionable why the Government should intervene in a market and compete against established insurance brokers, existing commercial aggregator sites or other credible third parties. This would appear to be inconsistent with the principle of competitive neutrality and would effectively distort an existing market and business models.

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<sup>20</sup> Consumer Focus, *Comparing comparison sites: Price comparison website mystery shopping report*, United Kingdom, March 2012, p4.

<sup>21</sup> Financial Conduct Authority, *The FCA launches review into price comparison websites*, Media release, United Kingdom, 24 November 2013.





## **Compliance and red tape**

The proposed aggregator, in any form, is also unlikely to place pressure on premiums in North Queensland. Some of the proposals, such as live pricing, could increase premiums by requiring millions of dollars in compliance and transaction costs for participating insurers.

The diversity of Australian homes and the risks they face, as well as the fact that most insurers rate on an individual property rather than postcode, means indicative or sample pricing will hamper transparency, may possibly be misleading and may lead to poor choices without consumer benefit.

Providing any form of live pricing, which would likely require insurers to change their underwriting principles to suit an industry-wide aggregator model, would require the business to likely alter their business model while also imposing high compliance costs on any participating insurer.

Once more concrete proposals are evident Suncorp will be able to quantify costs through the use of the Federal Business Costs Calculator.

## **Industry-based solutions to transparency and disclosure**

Suncorp believes there are alternatives that would increase transparency and better inform consumers about all financial products. This issue was raised by stakeholders to the Financial System Inquiry and Suncorp believes it is an issue that the entire finance industry must tackle together with the Federal Government after the Inquiry is completed.

In the short-term, Suncorp would support providing additional insurance availability and product information to increase transparency through the ICA's "Find an Insurer" website. The ICA already provides the same service over the phone where consumers cannot find an underwriter. Alternately, the Government could invest the funds committed in the most recent Budget to upgrade this service and build in more capacity. This would also be a cost-effective way to test the utility and take-up of such a service for North Queensland residents. If take-up was limited then the project funding could be redirected.



# The role of Unidentified Foreign Insurers

Australia's strong prudential requirements should not be relaxed in order to allow Unidentified Foreign Insurers (UFIs) to gain entry to the North Queensland market. Suncorp is concerned that any such move could significantly increase consumer risk and reduce their financial security, placing a higher burden on the Government as an insurer of last resort.

## Barriers to entry

Current regulation allows UFIs to operate in the market where insurance cannot be placed with an Australian insurer, including based on price. This is very rarely exercised, suggesting two possible drivers. The first is a lack of appetite for the risk from foreign insurers. The second is lack of appetite from brokers or their clients for the additional risk this places on consumers in terms of claims service, defaults and protection like the Financial Service Ombudsman.

Significantly, there is no evidence that accreditation is a barrier to entry for foreign insurers, with many currently operating within the market. Despite many of these existing insurers being licenced with access to capital from foreign markets, they are still not taking risks in North Queensland. Suncorp is concerned that an interventionist policy should be implemented in the absence of evidence that it is addressing an issue in a market.

## Consumer protections

Following the collapse of HIH, there have been a number of significant Federal reviews resulting in the tighter prudential and marketing arrangements for authorised insurers and UFIs to better protect consumers. There may be scope to reduce these standards in certain areas across the industry where the requirements are adding cost without consumer benefit. Broadly, however, these regulations work well to protect the Australian community.

As well as the prudential standards, Australian consumers also rightly expect the security afforded to them through measures like the General Insurance Industry Code of Practice, the Financial Claims Scheme and the Financial Service Ombudsman. Ultimately, the proposal to allow UFIs to bypass Australia's prudential standards to attract them into the market could significantly reduce consumer protections and place the community at risk of defaults, non-payments and low claims standards. Any gap left by such activity would likely be picked up by either the consumer or the Government in the form of disaster recovery assistance.



## Conclusion

Affordability of insurance is an issue in North Queensland, as it is in high risk regions across the world. It is also a very clear price signal from a well-functioning market that more must be done to reduce this risk through investment in mitigation and resilience.

Adapting products to ease affordability pressure is the responsibility of insurers and one that Suncorp is working towards with Good Shepherd Microfinance. However, this will not address the underlying risk driving premiums higher.

Supporting informed purchasing decisions is crucial and the finance industry across the globe needs to do more to support this goal. However, there is no evidence that an aggregator in any of the proposed forms would achieve this, nor is there evidence it would increase competition or place downward pressure on premiums.

Likewise, Suncorp does not believe relaxing Australia's strong prudential requirements to attract UFIs to the market would ultimately benefit consumers or the community.

Ultimately increased competition and premium reductions will only be driven by the market returning to balance and by addressing the underlying risk of natural hazards and to a much lesser degree, fill existing data gaps.

Three steps that could be taken to increase competition and reduce premiums in North Queensland without distorting the market or placing consumers at risk are:

- Undertake mitigation programs, including land-use and building regulations, to reduce the fundamental risk faced by the community, allowing more affordable premiums to be charged and reduce the capital needs of insurers to operate there.
- Make better hazard information available to consumers and the wider community, including relevant government agencies and the insurance industry, including potential new insurance competitors. This will reduce uncertainty in premium pricing, improve the confidence of new insurers entering the market and better inform the breadth of government and community decision-making on managing risk.
- Remove or reduce stamp duty on home insurance in North Queensland or more widely.

Suncorp looks forward to working with all levels of Government to address these issues and improve the long-term economic outlook of Northern Queensland.



# Productivity Commission Natural Disaster Funding Inquiry 2014

Suncorp General Insurance Submission



June 2014

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# Executive Summary

As one of Australia's largest insurers, Suncorp is all too familiar with the social and economic effects of natural disasters like storm, cyclone, flood and bushfire.

Recently, trends including urbanisation, economic growth and population shifts towards the coast have all contributed to an increased level of natural disaster risk in Australia. This heightened level of risk has broad impacts across the economy, including increasing the cost of insurance. One of the most startling economic impacts however is the scale of government expenditure on relief and recovery. There continues to be a heavy focus on post-disaster recovery funding which is becoming increasingly inefficient and costly.

To counter increasing levels of risk, Suncorp believes it is necessary to place a stronger focus on disaster mitigation and risk management. Greater pre-disaster investment could also deliver significant benefits in post-disaster financial outcomes. Disaster mitigation is a highly effective form of government investment preventing productivity losses, reducing recovery expenditure, allowing the economy to stay open for business throughout natural hazard events and reducing insurance premiums.

Disaster mitigation, rather than post-disaster recovery assistance, also makes economic sense in the long term. Suncorp recently commissioned KPMG to model the impact of a structured disaster mitigation program. The study found a structured mitigation program provides a GDP boost felt across household consumption, exports and imports, with a lower need for investment capital and returns due to a reduction in rebuilding activity. Over a 10 year period, the proposed \$250 million annual disaster mitigation program is modelled to produce a \$6.2 billion increase in GDP.

A successful disaster mitigation program must be coordinated, national and multi-faceted. Mitigation can be achieved through investment in dedicated infrastructure, such as a flood levee, or through regulations such as construction codes and state-based planning regulations. Disaster mitigation spans all levels of government with a wide-variety of possible actions to address each identified hazard.

In the past, this has resulted in mitigation across the country being haphazard, incoherent and patchwork in nature. Effective disaster mitigation is reliant on commitment, coordination and investment by each level of government. The key to improved outcomes will be a national focus provided by the establishment of a taskforce to guide investment in infrastructure, ensure resilience and to promote



sharing of information and resources nationally. This will ensure the full range of disaster mitigation actions are identified, prioritised and implemented.

In addition to a stronger focus on disaster mitigation, the level of government intervention in insurance markets should be reduced. A clearer and more efficient insurance market can be supported by revisiting post-disaster grant structures, insurance taxation, capital requirements and the sharing of hazard risk information. Improving these regulations will allow a greater proportion of risk to be transferred through the insurance market, provide a clearer market signal of risk and reduce the need for Government to provide post-disaster financial assistance.

## Key Recommendations

- Natural disaster funding arrangements should be reformed to shift the focus of funding from post-disaster relief and recovery towards pre-disaster mitigation. Increased investment in disaster mitigation offers economic benefits to the community and is a practical way to reduce future Federal Government expenditure on disaster relief and recovery.
- Building code and urban planning frameworks should be reviewed by the Council of Australian Governments to ensure best-practice disaster risk management is incorporated into regulations nationally. Lessons from previous disasters should be adopted nationally to ensure new homes, businesses and infrastructure are resilient to known natural hazard risks.
- Post-disaster recovery funding provided by the governments should be managed to ensure damaged infrastructure is rebuilt to a more resilient standard, preventing recurrent damage in the future.
- Federal, State and territory governments should support an affordable and efficient insurance market by removing state-based insurance taxes, reforming inflexible capital requirements and improving the sharing of hazard risk information.
- State and territory governments should establish centralised advice and support services to provide expert natural hazard risk management assistance to local government. This centralised service should focus on assisting local government to overcome their current funding and expertise challenges.



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## About the Suncorp Group

Suncorp is the largest general insurance group in Australia offering a range of personal and commercial insurance products, protecting the financial wellbeing of millions of Australians. As a Group, Suncorp has nearly 15,000 employees and more than nine million customers across the country. Its General Insurance business alone, Suncorp paid out \$5.8 billion in insurance claims in 2012-13, averaging more than \$15 million each day.

Suncorp offers a range of personal insurance products including car, home and contents, travel, boat, motorcycle and caravan insurance. The key to Suncorp's success in personal insurance is its portfolio of well-known brands. These include Suncorp Insurance, Apia, AAMI, GIO, Vero, Shannons, Just Car Insurance, Insure My Ride, Bingle, Terri Scheer, CIL Insurance and Resilium. These brands have built reputations for insurance innovation, outstanding customer service and trustworthy products.





# The Need for Investment

Australia has a long history of floods, bushfires, storms and cyclones. Recently, urbanisation, population shifts towards the coast, intense weather and sustained economic growth have combined to change our risk profile and increase the chance that a natural hazard, becomes a natural disaster. The average annual cost of natural disasters is \$1.7 billion across the insurance and government sector and this cost is likely to increase into the future.

Our changing risk profile is translating into higher natural disaster costs with more than \$14.5 billion of disaster claims over the past decade. Suncorp alone received 40,000 disaster claims during the 2010-11 Queensland summer of disasters totalling \$767.7 million for residential customers and \$267.2 million for commercial customers. The broader impact of these disasters is estimated to have reduced Queensland's gross state product by around \$6 billion in 2010-11.<sup>1</sup>

The current approach to natural disaster funding is weighted toward disaster recovery funding, with limited levels of investment in preventative disaster mitigation. This results in the inefficient practice of minimising costs upfront only to be faced with significant recovery bills following each disaster. This was recognised recently by the National Commission of Audit which categorised recovery funding as a "large and volatile expenditure [which] poses significant and ongoing risks to the Budget."<sup>2</sup> Current arrangements also lead to the highly inefficient practice of rebuilding assets and infrastructure to the original standard, maintaining high levels of risk and allowing the benefit of recovery investment to be wiped out by subsequent disasters.

In contrast to relief and recovery funding, investment in preventative disaster mitigation remains low. The Productivity Commission has previously found that the Australian government's investment in disaster mitigation between 2005 and 2011 ranged between \$24m and \$37m.<sup>3</sup> In another example, the Queensland Government recently received 174 disaster mitigation grant applications totalling \$547m in value.<sup>4</sup> The program has combined funding of just \$46.8 million, including \$12 million of Commonwealth funding which is yet to be released.<sup>5</sup> Clearly the level of investment in disaster mitigation could be increased to better manage natural hazard risk and reduce the need for post-disaster recovery.

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<sup>1</sup> Deloitte Access Economics, *Road to Recovery*, October 2011, pg. 7. available: <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MTEyOTcyfENoaWxkSUQ9LTF8VHlwZT0z&t=1> (Accessed: 30/05/2014)

<sup>2</sup> National Commission of Audit, *Towards Responsible Government*, Phase One Report, February 2014, pg. 187.

<sup>3</sup> Productivity Commission, *Barriers to Effective Climate Change Adaptation – Final Report*, 19 September 2012, pg. 255.

<sup>4</sup> The Hon. David Crissafulli MP, *Record applications for flood defence projects*, media statement, 15 May 2014.

<sup>5</sup> Department of Local Government, Community Recovery and Resilience, *Queensland disaster mitigation and resilience funding*, 10 April 2014 available: <http://www.dsdip.qld.gov.au/grants-and-subsidies-programs/queensland-disaster-mitigation-and-resilience-funding.html> (Accessed: 30/05/2014)



It is essential that funding efforts are shifted towards the prevention of natural disasters. Increased funding for disaster mitigation will make better use of limited resources and more effectively safeguard individuals, communities and the economy from natural hazards. A stronger focus on disaster mitigation will also offset growing risk trends and reduce the level of disaster risk being built into the economy. A small investment in a smarter decision today will deliver benefits to the community and governments for decades to come. It will also reduce the need for post-disaster government recovery assistance.



# Disaster Mitigation

The way Australians approach disaster mitigation needs significant reform. Each year that disaster mitigation fails to keep pace with Australia's growing risk profile is another year where up to \$1.7 billion of largely preventable losses occur.

## Economic Imperative

In the context of this review, increased disaster mitigation offers a practical way to reduce the amount of recovery funding required after a disaster. Each dollar invested in disaster mitigation reduces the resources required across disaster response and recovery. Over time this will lead to a reduction in the level of resources used in managing natural hazard risks.

The 2002 COAG review, *Natural Disasters in Australia*, highlighted additional investment in disaster mitigation offers all three levels of government a conservative rate of return of 15 per cent. Flood mitigation is particularly effective, with each dollar of investment saving Government \$2.10 in future recovery expenditure.<sup>6</sup> For communities, the investment return can be even greater with lower insurance premiums, increased economic activity and improved peace of mind.

Suncorp recently commissioned KPMG to model the material impacts on the economy from switching from the current natural disaster structure to either a pooled insurance system or a publically mitigated system from our current baseline. The KPMG Report found:

- that over the long-term government investment in natural disaster management is more economical when applied to structured mitigation than post disaster assistance;
- the current framework of pre-disaster management is still inherently incoherent and segmented;
- a sufficiently incentivised community with access to funding can lead the coordination of mitigation programs at a regional level and effectively drive down the cost of insurance premiums; and
- accurate risk pricing by insurers is critical in communicating actual risks to customers and incentivising risk reducing decision making.

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<sup>6</sup> Australian Government Department of Transport and Regional Services, *Natural Disasters in Australia*, 2004, pg. 24.



Overall, the study found a structured mitigation program provides a GDP boost felt across household consumption, exports and imports, with a lower need for investment capital and returns due to a reduction in rebuilding activity. Over a 10 year period, the proposed \$250 million annual disaster mitigation program is modelled to produce a \$6.5 billion increase to GDP.

## Insurance Premiums

The insurance industry plays an important role in supporting natural disaster mitigation. Risk-based insurance premiums act as a messenger of risk. High insurance premiums indicate high levels of risk and provide the community an incentive to reduce risk. More importantly however, lower insurance premiums act as a financial reward when risks are reduced.

A demonstration of the immense value disaster mitigation can be observed in Charleville, Queensland where a flood mitigation program was recently completed. This project has significantly reduced disaster risks with an average home and contents premium for a new policy now around \$990 - without flood mitigation this average home insurance premium would be over \$3000.

The table below shows a number of towns that have either completed flood mitigation works, or have provided enough information for Suncorp to predict premium impacts. This is only possible as a result of close collaboration with relevant local councils and demonstrates the value of transparent risk information, discussed in further detail later.

**TABLE 1 - DISASTER MITIGATION AND INSURANCE PREMIUMS**

TOWN	CLAIMS HISTORY	MITIGATION DETAILS	PREMIUM IMPACT
<b>Charleville, Queensland</b>	Since 2008, Suncorp alone has paid 296 natural disaster home claims at a total cost of \$18.8 million.	\$20 million flood levee combined with Bradley's Gully diversion and house raising program.  Risk analysis suggests a 158% increase in the number of properties assigned a nil flood risk rating.	Average home and contents premium for a new policy is now around \$990, without flood mitigation the average home insurance premium would have been over \$3,000.
<b>St George, Queensland</b>	Since 2008, Suncorp alone has paid 169 natural disaster home claims at a total cost of \$5 million.	\$6 million flood levee combined with house raising grants and land swaps.	The average premium of an existing policy has dropped by around 15% and the cost of a new home policy has reduced by \$270.



<b>Rockhampton, Queensland</b>	Rockhampton has experienced 17 moderate and major flood events in the past century or about one every six years.	Proposed flood levee protecting around 1,000 homes estimated to cost \$48 million.  Suncorp risk analysis suggests a potential 14% increase in the number of properties assigned a nil flood risk rating.	Average premiums for homes exposed to flood risk will likely reduce 32% or around \$400.  The average cost of a home policy will be around \$1,000.
<b>Roma, Queensland</b>	Since 2008, Suncorp alone has paid out more than 1,000 home claims at a cost of \$100 million +	\$16 million flood levee, currently under construction, protecting around 500 homes combined with house raising and diversion channel.	Average premium reductions of around 30% for a \$300,000 home. Reductions of up to 80% for highest flood risk properties.

This table demonstrates the relationship between large scale flood mitigation projects and local insurance premiums. These projects over time will also reduce the cost of reinsurance for Suncorp and help support and overall lower cost of insurance for the broader insurance market. They will also reduce the amount of capital required to underwrite risks, leading to lower costs for insurers and greater competition in the insurance market.

Although these examples relate to specific large scale projects, smaller scale disaster mitigation steps can also lead to lower premiums over time. For example, stronger building codes and smarter urban planning will reduce the risks faced by future developments. This reduced level of risk will flow through the insurance market and result in lower premiums. It is therefore important that a national and multi-faceted approach to disaster mitigation is taken.



# Disaster Risk Management

As new homes and communities are established, it is important that disaster risk is managed throughout building and planning regulation. This is particularly important in coastal and waterfront locations that are desirable areas to live, but also come with high levels of natural hazard risk. Ensuring that both building and planning regulations adequately manage risks will protect future communities from the high costs associated with future natural disasters.

## Building Stronger Homes

The national construction code is a key piece of regulation that affects the level of risk throughout Australia. The value of requiring homes to be constructed to a stronger building code is particularly clear in cyclone prone areas. Following Cyclone Tracy in 1974, wind resistance standards were significantly increased through building codes. This has significantly reduced the risk to life from cyclones, but also reduced the risk of damage to homes and generated more affordable cyclone insurance premiums.

An example of the effect of building codes can be seen in the cost of Cyclone claims in the towns of Innisfail, Tully and Cardwell in North Queensland. In 2006, Cyclone Larry damaged a number of homes in Innisfail, which were repaired or rebuilt subject to the new stronger building code. In 2011, when Cyclone Yasi again impacted Innisfail the rebuilt areas saw average repair costs of \$56,000. This was almost half of the \$110,000 repair costs in nearby Tully and Cardwell that were largely built prior to the new cyclone building standards.

While clearly building codes have already played an important role in lessening the impact of natural disasters, more can be done to improve their effectiveness. For instance, the current objective of the Australian Building Codes Board (ABCB) includes to:

...establish codes and standards that are the minimum necessary to efficiently achieve the relevant mission of ensuring safety and health, and amenity and sustainability objectives.<sup>7</sup>

The mission of the ABCB should be expanded to include an explicit resilience objective. This would ensure the full range of economic benefits associated with code improvements are considered throughout regulatory impact analysis. Currently,

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<sup>7</sup> Australian Building Codes Board, *Australian Building Codes Board Intergovernmental Agreement*, 2012, pg. 8.



the ABCB mission only supports analysis based on safety, health and sustainability objectives.

Changes that would improve resilience, but don't improve safety and health, are likely to fail regulatory impact analysis and are therefore not included in building codes. For example, protection against wind driven rain ingress around windows and doors has no effect on safety and health, but would significantly improve outcomes following a tropical cyclone by avoiding consequential damage to furnishings and plasterboard.<sup>8</sup>

This gap in objectives was recognised by the ABCB Chairman in his submission to the Productivity Commission's Inquiry *Barriers to effective climate change adaptation*:

The ABCB's commitment through the IGA [Intergovernmental Agreement] to BCA [Building Code of Australia] provisions being cost effective may restrict efforts to make buildings more resilient. The costs change to building design is a real cost that can be easily estimated, while the benefits provided would be in terms of probable reductions in damage, injury or loss of life and are often intangible, difficult to estimate and have a long timeframe.<sup>9</sup>

We advocate for amendment of the mission and objectives of the Australian Building Codes Board (ABCB) to include an explicit focus on building community resilience to natural hazards. Importantly, this would recognise the economic and productive value of assets in addition to the protection of life goals currently within the regulation.

A resilient building code will require investing a small amount upfront to manage the long-run risks associated with natural hazards. For example, the Keelty Review into the Perth Hills Bushfires found that for between \$200 and \$500, ember screens could easily be fitted to evaporative air conditioners resulting in a dramatic decrease in risk from ember attack.<sup>10</sup> This is clearly a smart investment when benchmarked against the risk of total loss following a bushfire.

A more resilient building code will also reduce the need for post-disaster financial assistance from Government. A 2012 Milliman study found a stronger building code

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<sup>8</sup> Boughton et. al, "Tech Report No 57", *Tropical Cyclone Yasi Structural Damage to Buildings*, James Cook University, 19 April 2011, pg. 81, available: <https://www.jcu.edu.au/cts/publications/content/technical-reports/jcu-078421.pdf/view>, (Accessed: 11/12/2013)

<sup>9</sup> Australian Building Codes Board, *Submission to the Productivity Commission Inquiry into Regulatory and Policy Barriers to Effective Climate Change Adaptation – Draft Report*, June 2012, pg.10.

<sup>10</sup> Perth Hills Bushfire Review, *A Shared Responsibility: The Report of the Perth Hills Bushfire February 2011 Review*, 16 June 2011, pg. 143.



act could have saved the US Federal Government an average of nearly \$500 million a year in hurricane relief payments if it had been enacted in 1988.<sup>11</sup>

A stronger building code should also be supported by enforcement. The Queensland Building and Construction Commission recently conducted a random audit of 112 buildings in Mackay and found 11 did not meet cyclone standards.<sup>12</sup> It is crucial that the building code is robustly enforced to ensure new homes stand the best possible chance of withstanding future cyclones and natural hazards.

Beyond the mandatory requirements of the building code, it is also often wise for homeowners to voluntarily invest in more resilient homes. To support this voluntary investment, the insurance industry has established the Australian Resilience Taskforce to develop a Building Resilience Rating Tool (BRRT).<sup>13</sup> This tool combines natural hazard risk information from the insurance industry with information about building materials to develop a simple 1 to 5 resilience rating for homes.

The BRRT provides the community an opportunity to educate themselves about the risks they face and make smarter decisions about building or renovating their homes. We believe the BRRT will help to enhance resilience but is limited by awareness of the tool and competing cost interests during home construction and renovation.

To help overcome these competing interests, an insurance premium incentive program could be linked to the BRRT, similar to the Resilience STAR™ program in the United States. Resilience STAR™ is a partnership between the Institute for Business and Home Safety (operated by US Insurers) and the US Department of Homeland Security to promote and incentivise resilience.

The program incentives include insurance premium reductions, building permit rebates, state-level tax incentives, as well as state and federal grant funds that can be used to offset retrofitting or building costs.<sup>14</sup> Such a program with similar incentives in Australia would increase the motivation for individuals to go beyond the minimum requirements of the building code to achieve greater resilience.

Suncorp believes the combined influence of a stronger building code and increased incentives for resilient construction will significantly improve the durability of homes and businesses. This will have a wide range of positive impacts for communities

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<sup>11</sup> Environmental and Energy Study Institute, *Support for climate adaptation and resiliency*, 2013, available: <http://www.eesi.org/policy/resiliency#.U409Jt3ibfU> (Accessed: 03/06/2014)

<sup>12</sup> Melissa Maddison, *Mackay building audit reveals cyclone standards shortfall*, ABC News, 21 March 2013, available: <http://www.abc.net.au/news/2014-03-21/mackay-building-audit-reveals-cyclone-standards-shortfall/5336012> (Accessed: 03/06/2014)

<sup>13</sup> Insurance Council of Australia, *Building Resilience Rating Tool*, 2013, available: <http://www.buildingresilience.org.au/brtt> (Accessed: 05/12/2013)

<sup>14</sup> See: Institute for Business & Home Safety, *Resilience STAR™*, available: <http://www.disastersafety.org/resilience-star/> (Accessed: 14/01/2014)





including continuity of business during disasters, reduced social stresses associated with asset loss and more affordable insurance premiums.

## Smarter Urban Planning

Disaster risk management can also be achieved through risk-informed urban planning. As more homes and businesses are built, the impact of natural hazards increases due to the higher number of structures exposed to natural hazards. Placing homes and businesses in smarter locations will help reduce the likelihood and cost of natural disasters.

Our expanding built environment creates a clear need for risk-informed urban planning that helps to manage exposure to natural hazard risks. Risk-informed planning is not a new concept, indeed a 1909 Royal Commission into the town planning of Sydney states:

Provision should also be made in such an Act to minimise fire risks arising from the overcrowding of building areas, the absence of fire breaks and proper means of access.<sup>15</sup>

More than a century later, the National Strategy for Disaster Resilience expresses a similar concept:

The strategic planning system is particularly important in contributing to the creation of safer and sustainable communities. Locating new or expanding existing settlements and infrastructure in areas exposed to unreasonable risk is irresponsible.<sup>16</sup>

Urban planning has a critical relationship with the level of risk in a community and its economic resilience to disasters. Take an example town of 100 homes that is impacted by a bushfire on average once every 40 years. Each time a bushfire affects the town, 10 houses are burnt at a replacement cost \$300,000 per house. This results in a \$3 million expense per bushfire or an annualised insurance premium of \$750 for each homeowner ( $\$3,000,000 \text{ event cost} \div 40 \text{ years} \div 100 \text{ households}$  - if we assume nil operating costs or profit for the insurer).

Over time, population growth creates demand for 20 new homes that could either be constructed on the urban fringe, or within the town as infill development. Constructing these homes on the urban fringe increases the number of homes in close proximity to bushland and may result in additional five homes being destroyed

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<sup>15</sup> Royal Commission for the Improvement of the City of Sydney and its Suburbs, *Final Report*, 1909, pg. xxiv, available: [http://www.photosau.com.au/CoSMaps/maps/pdf/RC\\_R/6%20-%20FINAL%20REPORT.pdf](http://www.photosau.com.au/CoSMaps/maps/pdf/RC_R/6%20-%20FINAL%20REPORT.pdf) (Accessed: 15/11/2013)

<sup>16</sup> Council of Australian Governments, *National Strategy for Disaster Resilience*, February 2011, pg. 11.



during each bushfire event. This would increase the event cost to \$4.5 million and result in annualised premiums of \$937.50, an increase of 25% ( $\$4,500,000 \text{ event cost} \div 40 \text{ years} \div 120 \text{ households}$ ).

Alternatively, the 20 new homes could be planned as in-fill development and located further away from bushland. This would still increase exposure, but to a lesser extent and perhaps only one additional home is destroyed during each event. This would increase the event cost to \$3.3 million but the greater number of homeowners allows for the risk to be shared by a larger number of policyholders. In this scenario, the annualised premium would actually reduce to \$687.50 ( $\$3,300,000 \text{ event cost} \div 40 \text{ years} \div 120 \text{ households}$ ).

While the interrelationships between planning, risk and insurance premiums are far more complex in an actual town, the fundamentals of this example demonstrate how risk-informed planning can be used as a policy tool to manage community risk and influence insurance premiums. In the example where development has been guided by risk, the community collectively saves \$30,000 in insurance premium expenses each year.

It is clear that urban planning is a challenging policy area with a huge range of competing priorities making regulation difficult for governments. The long lifespan of buildings and infrastructure however, mean that a shortfall in the planning scheme can leave the community at an unacceptable level of risk environment for 100 years or more.

Recent natural disasters, including the 2009 Victorian Bushfires, the 2010-11 Queensland floods and Cyclone Yasi, have highlighted some weaknesses in planning regulations throughout Australia. Suncorp believes it is crucial for State and territory governments to quickly respond to the changing risk environment throughout Australia and improve planning regulations.

A good example of the need to strengthen planning regulations is the recent approval of a 970-dwelling complex in a flood plain by the Gold Coast City Council. Although the development is sufficiently high risk to warrant an evacuation helipad, a three-day emergency food supply and two lifeboats, the Council felt they did not have the legal standing to decline the development application.<sup>17</sup>

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<sup>17</sup> Kim Stephens, *Development on Gold Coast flood plain to have lifeboats, emergency food*, Brisbane Times, 19 July 2013, available: <http://www.brisbanetimes.com.au/queensland/development-on-gold-coast-flood-plain-to-have-lifeboats-emergency-food-20130719-2q9km.html> (Accessed: 10/12/2013)



Similarly, development continues in the Hawkesbury-Nepean flood plain, despite multiple government reviews finding it an extreme flood risk. A 2012 report for Infrastructure NSW states:

A repeat of the 1867 flood in the Valley is expected to flood around 7,000 homes of which 1,000 would be likely to fail. The SES has plans to evacuate more than 60,000 people in an extreme flood.<sup>18</sup>

Suncorp risk estimates place the Gold Coast and Hawkesbury-Nepean among the highest risk areas in the country. These are clear examples of where planning frameworks could be improved to better manage natural hazard risk. It is crucial that smarter urban planning takes place today to ensure that new developments can proceed in a resilient manner, protecting future communities from the harsh impacts of natural disasters.

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<sup>18</sup> Molino Stewart Pty Ltd, *Hawkesbury-Nepean Flood Damages Assessment – Final Report*, , September 2012, pg. 1, available: [http://www.infrastructure.nsw.gov.au/media/16727/molino\\_stewart\\_hn\\_flood\\_damages\\_report\\_final.pdf](http://www.infrastructure.nsw.gov.au/media/16727/molino_stewart_hn_flood_damages_report_final.pdf)



# Post-disaster Investment

The long life of infrastructure, homes and businesses means it is vital we use the opportunity presented by disasters to rebuild in a resilient way. It only makes sense that assets damaged once by disasters will be damaged again unless something is changed. Post-disaster investment should be managed to ensure damaged infrastructure is rebuilt to a more resilient standard, preventing recurrent damage in the future.

In a recent article, Dr Sarah Boulter, Research Fellow at the National Climate Change Adaptation Research Facility is quoted:

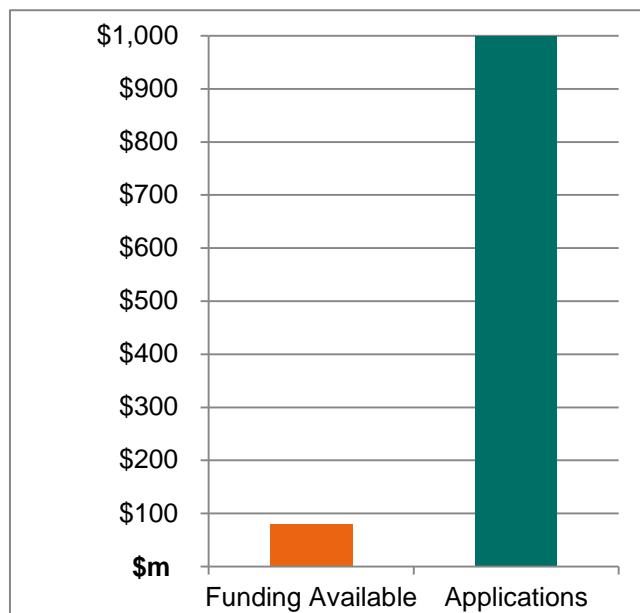
Often, following a disaster, there is an option to ‘build back better’ but this requires considerable political will and financing. It’s more common to simply rebuild in a desire to return to normality as soon as possible.<sup>19</sup>

A prime example of the need for smarter post-disaster investment is the Gayndah water pump in Queensland. The water pump was damaged by the 2011 floods and was rebuilt in the same location using disaster recovery funding. Two weeks after it was recommissioned it was damaged again by flood waters due to its poor positioning. Moving the pump to a higher level was the first project to be funded under the Queensland Government’s betterment program.<sup>20</sup>

This program, jointly funded by State and Federal Governments, received nearly \$1 billion worth of applications with only \$80m of funds available.<sup>21</sup>

This almost \$1 billion funding shortfall, in one year, just in Queensland, demonstrates how common it is for damaged infrastructure to be rebuilt or repaired to the original standard and therefore remain exposed to natural hazard risk.

Figure 1 - POST-DISASTER INVESTMENT SHORTFALL



<sup>19</sup> Sunanda Creagh, *Experts urge caution when rebuilding after disaster*, The Conversation, 4 December 2014, available: <http://theconversation.com/experts-urge-caution-when-rebuilding-after-disaster-11133> (Accessed: 31/05/2014)

<sup>20</sup> The Hon. David Crisafulli MP, *Betterment funds flow for North Burnett*, media statement, 4 May 2013.

<sup>21</sup> The Hon. David Crisafulli MP, *Councils seek nearly \$1 billion for better building*, media statement, 28 April 2013.



While it is costly to build infrastructure to a more resilient standard, it is even more costly to continually rebuild after natural disasters. Suncorp strongly believes post-disaster investment in resilience should be built into recovery funding arrangements. It is inefficient to fund recovery to an existing standard when that standard has been proven vulnerable to natural hazards.



# Insurance Markets

Insurance plays a vital role in the financing recovery from natural disasters. Individuals, businesses and governments can transfer the financial risk of disaster through insurance markets to help fund unexpected and severe costs associated with natural disasters. The risk-based price of insurance also ensures individuals receive a market indication of risk, which influences decision making.

Government policy should support the provision of attractive and affordable insurance products by minimising interference with insurance markets. This will improve the uptake of insurance and reduce the need for government to act as the “insurer of last resort” by providing inefficient and costly post-disaster financial assistance. The below policies can be changed to improve the functioning of the insurance market, increasing economic resilience to disasters and reducing the need for government assistance.

## Disaster Recovery Grants

Suncorp has observed that the Australian Government Disaster Recovery Payment (AGDRP) and the Disaster Recovery Allowance (DRA) may give rise to ‘charity hazard’. The receipt of AGDRP or DRA payments, or the knowledge of payments to others, has occasionally influenced sum insured and insurance excess decisions of our customers and reduced the overall level of insurance coverage.

KPMG found that:

There are significant challenges associated with supplementing the cost of disaster recovery. For households, the provision of post disaster government assistance has been inconsistent across historic natural disaster events generating uncertainty and, if you are assuming some degree of government support, that in turn makes pre disaster decision making difficult.<sup>22</sup>

For example, a Suncorp customer in New South Wales received a \$1,000 grant following the 2010-11 floods. Upon renewal the customer contacted us to increase their insurance excess to \$1,000, citing the availability of assistance as a reason for increasing their excess above a level they could ordinarily afford to pay. This has not only increased the individual’s reliance on future government assistance, it has also exposed them to substantial additional risk from non-disaster events such as a small kitchen fire for which no government assistance is available.

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<sup>22</sup> KPMG, *Risk Apportionment in the Insurance Sector*, March 2014, pg.15



Research into the effects of the United States federal disaster assistance grants has found that for each \$1,000 of government assistance provided, average insurance coverage decreases by between \$5,322 and \$6,350.<sup>23</sup> The research also found in contrast that federal disaster loans had no systematic effect on insurance coverage for consumers.

## Capital Requirements

APRA's Life and General Insurance Capital (LAGIC) reforms have recently amended capital requirements for the insurance industry. While Suncorp supports strong prudential regulation, these reforms have introduced some inflexible capital frameworks, which have unnecessarily increased the cost of insurance.

One example of this is the Insurance Concentration Risk Charge (ICRC) which prescribes the minimum amount of capital required to be held against insurance risks and has implications for reinsurance.

As a result of an APRA decision which conservatively estimates the potential cost of reinsurance reinstatements, Suncorp has been forced to change our reinsurance structure and buy two additional reinstatements upfront. These reinstatements are highly unlikely to ever be used but are necessary in order to avoid well over \$100 million of capital charges under the ICRC. This excessive regulation has resulted in an additional \$20 million in reinsurance costs which has increased the cost of insurance.

## Insurance Taxation

Insurance taxes, duties and levies currently form a significant barrier against Australians purchasing affordable insurance cover. Insurance premiums are currently subject to the imposition of multiple taxes, with the Australian Bureau of Statistics reporting that insurance taxes contributed \$5.53 billion in taxation revenue across all levels of government in 2012-13.<sup>24</sup> This is more than the amount collected through gambling taxes.

The need for insurance tax reform is particularly clear when taxation revenue growth is considered. Insurance taxes are applied as a percentage of premiums, meaning that as premiums increase due to extreme weather costs, additional taxes are collected from the community and the government receives unexpected tax revenue. This also results in a higher tax burden for those at highest risk, resulting in a

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<sup>23</sup> Kousky, C., Michel-Kerjan, E., Raschky, P., *Does Federal Disaster Assistance Crowd Out Private Demand for Insurance*, Risk Management and Decision Processes Center, October 2013, Available: <http://www.aeaweb.org/aea/2014conference/program/retrieve.php?pdfid=102> (Accessed: 01/06/2014)

<sup>24</sup> Australian Bureau of Statistics, *5506.0 - Taxation Revenue, Australia, 2012-13*, 28 May 2014.



reduced likelihood to take out insurance coverage and an increased need for post-disaster Government assistance.

Suncorp strongly supports recommendation 79 of Australia's Future Tax System which recommends that "[a]ll specific taxes on insurance products, including the fire services levy, should be abolished."<sup>25</sup> Insurance tax reform has also been recommended by the 2009 Victorian Bushfires Royal Commission,<sup>26</sup> the Productivity Commission *Barriers to Effective Climate Change Adaptation Inquiry*,<sup>27</sup> and the Senate *Recent trends in and preparedness for extreme weather events Inquiry*.<sup>28</sup>

In 2013, Suncorp welcomed the decision by the Victorian Government to abolish the Fire Services Levy. Since transition to a property based levy Victoria has introduced concessions for pensioners and veterans while also lowering Fire Services Levy rate.<sup>29</sup> Abolishing insurance taxes clearly improves the fairness and efficiency of tax collection and Suncorp advocates for further insurance tax reform.

## Transparent Risk Information

Typically, government agencies at the State and local level hold significant amounts of hazard information developed for planning and emergency management purposes. The sharing of this information is highly valuable for the community, both better informing individuals to prepare for disasters and supporting a more efficient insurance market.

Access to government risk information can improve the accuracy of insurance pricing leading to corrections of under pricing and to the removal of uncertainty pricing. Uncertainty pricing occurs where there is an unclear picture risk for an insurer and an additional safety margin must be charged to maintain prudential standards, ensuring that the possible range of risks is fully accounted for. When data becomes available that better defines risk, premiums can be adjusted to better reflect risk.

Table 2 shows some example reductions of insurance premiums where Suncorp customers have provided a copy of their council-developed, updated flood risk map. This has allowed Suncorp to improve our assessment of risk and offer a lower overall insurance premium.

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<sup>25</sup> The Treasury, *Australia's future tax system—Report to the Treasurer*, December 2009, p. 94.

<sup>26</sup> 2009 Victorian Bushfires Royal Commission, *Final Report- Summary*, July 2010 pg. 36

<sup>27</sup> Productivity Commission, *Barriers to Effective Climate Change Adaptation – Final Report*, 19 September 2012, pg. 30

<sup>28</sup> The Senate Environment and Communications References Committee, *Recent trends in and preparedness for extreme weather events*, August 2013, pg.78.

<sup>29</sup> The Hon. Michael O'Brien MP and the Hon. Peter Ryan MP, *Coalition Government reduces fire levy rates*, media release, 21 May 2014.





**TABLE 2 - EXAMPLE UNCERTAINTY PREMIUM REDUCTIONS**

PREMIUM WITHOUT FLOOD MAP	PREMIUM WITH COUNCIL FLOOD MAP	DIFFERENCE IN PREMIUM
\$1,474.99	\$1,260.74	-\$214.25
\$2,075.42	\$1,664.86	-\$410.56
\$1,775	\$1,264.50	-\$510.50

A more efficient way of reducing uncertainty pricing is for governments to provide bulk access to risk information. This has occurred in some areas through a recent update to the National Flood Insurance Database. Suncorp has used this additional flood risk information to improve our pricing models and has been able to substantially reduce premiums in some towns as a result.

For example, updated information for Port Douglas in North Queensland has allowed Suncorp to assign a nil flood risk rating to a large a section of properties previously assigned a low to medium risk rating. This has led to premium reductions of up to \$1,000 and overall could save the Port Douglas community up to \$2.5m in premiums each year.

Similarly, for Wyong in NSW, access to flood risk information saw the number of properties rated as no flood risk increase by 19 per cent. This has generated an average 35 per cent premium reduction that could potentially equate to an annual premium saving of \$2.8m across the community.

Geoscience Australia is currently developing a National Flood Risk Information Program to provide improved access to flood studies developed by all levels of government.<sup>30</sup> This project follows recommendations of both the Natural Disaster Insurance Review (NDIR) and the Queensland Floods Commission of Inquiry to enhance the transparency of flood risk.

Suncorp supports increased sharing of risk information. A centralised way to access historical loss information and government risk data will help to develop a consistent picture of natural hazard risk providing significant benefits for the community, government and the insurance market.

The community will benefit from increased risk awareness, leading to better management of risk. There have been a number of examples of individuals and home owners moving into a hazard-prone area with little or no risk information being

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<sup>30</sup> Geoscience Australia *National Flood Risk Information Program*, 18 June 2013, available: <http://www.ga.gov.au/hazards/flood/national-flood-risk-information-project/national-flood-risk-information-program.html> (Accessed: 29/10/2013)



provided to them. The Sydney Morning Herald has even highlighted a number of residents in the Hawkesbury-Nepean region, one of Australia's highest flood risk areas, were unaware a flood may affect their home and require evacuation.<sup>31</sup>

The insurance market will also benefit with risk information leading to increased competition. Risk information improves the ability for insurers to model risk, which in turn increases the likelihood of new entrants into the insurance market. A better understanding of risk is particularly important for attracting new insurers to high risk markets such as North Queensland. Accurate risk modelling allows new entrants to expand with confidence and avoid holding excessive capital in reserve.

Finally, governments will benefit from the improved management of risk at the individual and insurer level, reducing the need for post-disaster financial assistance. A better understanding of risk at a national level will also improve provide a basis on which to prioritise disaster mitigation funding.

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<sup>31</sup> Han, E, "I didn't know an 1867-type flood could happen here", Sydney Morning Herald, 26 March 2013, available: <http://www.smh.com.au/environment/water-issues/i-didnt-know-an-1867type-flood-could-happen-here-20120326-1vtvr.html>



## Supporting Local Government

Local government is an important stakeholder in natural disaster risk management. As the interface between regulation and community, local government provides the local knowledge required to effectively implement disaster mitigation.

Suncorp's conversations with local councils highlight that many are struggling to find the support they need to build disaster mitigation infrastructure. One local mayor even contacted Suncorp seeking advice as to which government department could assist their town progress a flood study.

Disaster risk management responsibilities are often devolved to local governments due to their expert local knowledge. Local governments however, struggle to fulfil those responsibilities with key pressures of funding and expertise, making it challenging to progress disaster mitigation initiatives.

The funding challenge is not a new issue for local government. Council rates account for just three per cent of the overall revenue raised by overall taxes, but are used to cover a wide variety of local services including roads, parks, planning and disaster management. The limited capacity of regional councils to raise rates means they have an even tougher funding task. Most regional councils rely heavily on financial assistance from States and the Federal Government, with grant revenue sometimes accounting for more than half of council revenue.<sup>32</sup>

The limited capacity for many councils to raise their own revenue, combined with the lack of disaster mitigation funding being passed down from State or Federal Governments, means in many cases there is simply no money available to invest in disaster mitigation. This can be observed, for example, in Rockhampton where a flood mitigation program was first recommended following severe flooding in 1991 but has yet to be implemented.<sup>33</sup>

Adding to the funding challenge is the difficulty in developing the expert knowledge required to build a sound disaster mitigation plan. Disaster mitigation requires a mix of local knowledge, history and professional skills like hydrology, forestry and geology. Finding this expert knowledge is difficult for most local councils with many engaging consultancy firms to provide risk reports. As noted by the Queensland Floods Commission of Inquiry:

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<sup>32</sup> *Facts and Figures*, Australian Local Government Association, 2014, available: <http://alga.asn.au/?ID=59&Menu=41,83> (Accessed: 07/02/2014)

<sup>33</sup> See: *Flood Studies*, Rockhampton Regional Council, available: [http://www.rockhamptonregion.qld.gov.au/Our\\_Region/Disaster\\_Management/Disasters/Flood\\_Season/Flood\\_Studies](http://www.rockhamptonregion.qld.gov.au/Our_Region/Disaster_Management/Disasters/Flood_Season/Flood_Studies) (Accessed: 02/06/2014)



In almost every case, creating a comprehensive flood map involves undertaking a detailed flood study: an expensive, time consuming and technically complex process, beyond the reach of many councils.<sup>34</sup>

The rapid flood mapping support provided by the Queensland Reconstruction Authority is an example of how it is more efficient to have State-level coordination of risk mapping. This offers a cost effective way to fast-track flood mapping with experts engaged by a State body and allocated to projects in a coordinated way.

Enhanced support for local government may also help overcome disparity in the allocation of grant funding. For example, in the Productivity Commission's *Barriers to Effective Climate Change Adaptation Inquiry*, Mr Eddie Love, Deputy Director Environment Planning, Gosford City Council stated:

I guess our ability to be successful in getting grant funding has been very good and because traditionally or historically there has been a fairly consistent pot of money and there's been few councils looking to try and grab that pot of money, we've been one of those councils that has been successful in getting some of that.<sup>35</sup>

This example highlights how a grant approach to disaster mitigation funding can result in a distorted allocation of funding towards councils most willing to invest time and resources into grant applications. Greater support for local government through the provision of access to expertise from higher levels of government will help resolve this distortion.

A good example of the need to better support local government can be observed in the town of Roma, Queensland. A flood levee has been discussed for the town since 2007 but was not constructed due to funding issues. After being flooded three times in as many years, Roma had faced several multi-million dollar recovery bills, but still did not have a flood levee. In 2012, Suncorp made the difficult decision to refuse cover to new customers and increase premiums for our continuing customers in the town.

This temporary embargo was both a business and community driven decision, with our ultimate intention being to highlight the need for more investment in disaster mitigation for the community of Roma. A flood levee is now under construction in Roma and new policies are being accepted. Suncorp expects the levee will result in average premium reductions of around 30 per cent, and for high risk customers, a reduction of up to 80 per cent. Again this demonstrates the challenges local

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<sup>34</sup> Queensland Floods Commission of Inquiry, *Final Report*, 2012, pg.62.

<sup>35</sup> Productivity Commission, Transcript of Proceedings, *Inquiry into barriers to effective climate change adaptation*, 10 July 2012, pg. 62.



government face with regard to disaster mitigation, but also how these can be overcome with external support.

The experiences observed in Rockhampton, Gosford and Roma demonstrate the need to rethink our approach to disaster mitigation across levels of government. A more effective approach will be to ensure local government have access to support from higher levels of government. State and territory governments should establish a centralised advice and support service to assist local governments overcome the funding and expertise challenges associated with natural disaster risk management.



# Role of State and Territory Governments

State and Territory governments have responsibility for a number of policies that influence natural hazard risk, insurance coverage and the capacity to recover post-disaster. This submission has already addressed a number of State-level policies including:

- land-use planning;
- the National Construction Code;
- insurance taxation;
- disaster mitigation funding programs;
- sharing of natural hazard risk information; and
- improved support for local government.

Considerable improvement could be obtained through enhanced coordination of these policies, both within and across jurisdictions. A good example of the need for greater coordination is pre-sale natural hazard risk disclosures.

The Productivity Commission has previously identified that each State currently has different requirements related to which natural hazards must be disclosed by the vendor when selling a property.<sup>36</sup> Harmonising this regulation would come at minimal cost but would significantly improve risk awareness and prompt Australians to consider natural hazard risk when purchasing their homes.

In February 2013, Queensland established a ministerial portfolio for community resilience to improve natural disaster risk management. Since this time Suncorp has observed considerable progress in disaster mitigation with improved focus and coordination across policy areas. This has resulted in improved mitigation planning, enhanced transparency around funding arrangements and planning reforms targeted at natural hazard risk management.

Improving knowledge sharing and coordination of policies across jurisdictions is a low cost way of improving natural disaster risk management. This allows lessons

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<sup>36</sup> Productivity Commission, *Barriers to Effective Climate Change Adaptation – Inquiry Report*, 19 September 2012, pg.141.



identified in post-disaster inquiries to be developed into best-practice regulation in one State or territory and then adopted nationally where appropriate.



## Role of the Federal Government

Natural disasters can have significant regional economic implications. Reducing recovery funding without first reducing risk is likely to expose regional economies to significant levels of risk. Ultimately, regardless of policy decisions made today, the Federal Government is likely to provide financial assistance when faced with the risk of significant economic collapse post disaster.

The most effective way of achieving reduced Federal expenditure on post-disaster assistance is to invest in preventative disaster mitigation. It is for this reason that Suncorp suggests the Federal Government adopt a leadership role by increasing investment in resilient infrastructure. Funding arrangements should support resilient infrastructure investment both through post-disaster investment, as discussed earlier, and in pre-disaster infrastructure investment.

A record \$50 billion dollars of infrastructure investment is budgeted through to 2019/20.<sup>37</sup> The significant scale of this investment presents the opportunity to ensure new infrastructure is developed in a resilient way, better preventing the need for future repair and reconstruction following disasters. This will not only protect the Federal Government budget from significant post-disaster expenditures, it will also ensure infrastructure continues to contribute to productivity during natural hazard events.

Alongside ensuring smart, targeted investment in disaster resilient infrastructure, vital national tools including a national picture of hazard risk and a national understanding of disaster impacts should be developed to support national decision-making.

A national understanding of risk will inform prioritisation of infrastructure investment and ensure new investments are resilient to known risks. Additionally, this picture of risk will better inform individuals, businesses and government of the natural hazard risks they face. This will ultimately reduce the call for post-disaster financial assistance in the future.

Similarly, a national understanding of disaster impacts would support better national decision making. Current disaster decision making predominantly relies on data related to insured losses held by the Insurance Council of Australia. The impacts of disasters extend far beyond insurable losses however, with significant economic, social and environmental impacts. Suncorp believes a more robust understanding of

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<sup>37</sup> *Catalysing infrastructure investment*, Budget 2014-45, Australian Government, available: [http://www.budget.gov.au/2014-15/content/glossy/infrastructure/html/infrastructure\\_02.htm](http://www.budget.gov.au/2014-15/content/glossy/infrastructure/html/infrastructure_02.htm) (Accessed: 02/06/2014)





the impacts of disasters across sectors is crucial to ensure risk management is truly commensurate with risks.

We believe a better understanding of disaster risks and impacts will improve decision making and ensure national funding is directed towards resilience.



## Conclusion

As the trends of urbanisation, economic growth and population shifts towards the coast continue, the level of risk throughout Australia will continue to rise. The current natural disaster funding arrangements place the Federal Government as insurer of last resort, exposing the Budget to significant risk.

It is important that reforms are made now to improve resilience to natural hazards going forward. These reforms will ultimately reduce the need for post-disaster relief and recovery and safeguard the economy. Most importantly, governments at all levels need to increase investment in pre-disaster mitigation in order to reduce the impact of hazards on communities, along with their own liability for post-disaster recovery funding.

Suncorp believes improvements in the building code, urban planning practices, sharing of risk information, investment in disaster mitigation, insurance taxation and improved support for local government are achievable in the short term. These changes will ensure a whole of community approach to disaster mitigation and ultimately place Australia on a better footing to withstand future natural hazards.

These issues are well-known and longstanding. Suncorp believes it is time for concerted action to progress coordinated structural changes today that will deliver ongoing benefits to the economy and the community for years to come.



# Appendix A – Additional Documents

The below additional documents may also be of interest to the Productivity Commission:



## Risk Apportionment in the Insurance Sector

This KPMG prepared report provides an empirical analysis using a comparative static, computable general equilibrium (CGE) model to test the material impacts on the economy from switching from the current natural disaster structure to either a pooled insurance system or a publically mitigated system.

Overall, the study found a structured mitigation program provides a GDP boost felt across house hold consumption, exports and imports, with a lower need for investment capital and returns due a reduction in rebuilding activity. This document is available at:

<http://www.suncorpgroup.com.au/media/public-submissions>



## The Road to Recovery

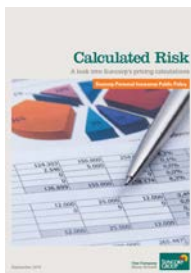
This report prepared by Deloitte Access Economics examines the role played by Suncorp in the wake of the unprecedented Queensland natural disasters over the summer of 2010-11. The economic analysis highlights the extent and scale in which claims payouts and broader risk mitigation services to Suncorp policyholders were pivotal in delivering urgent financial stimulus and restoring economic flows across Queensland. This document is available at:

<https://www.deloitteaccesseconomics.com.au/uploads/File/Suncorp%20-%20Role%20of%20insurers%20in%20natural%20disasters%20-%20Final%20-%202017%20October%202011.pdf>



## Risky Business

The relationship between risk, risk management and insurance premiums is a concept that Suncorp has previously explored in *Risky Business* following the challenging series of natural disasters between 2009 and 2012. This document is available at: <http://www.suncorpgroup.com.au/media/public-submissions?year=2013>



## Calculated Risk

Suncorp's approach to risk based insurance premium calculation is explained in *Calculated Risk*. Modern insurance pricing practices have changed significantly over the past few years and this document provides a comprehensive overview of Suncorp's current pricing approach. This document is available at:

<http://www.suncorpgroup.com.au/media/public-submissions?year=2014>



## Reinsurance – Hero or villain?

The relationship between insurance and reinsurance has been explored by Suncorp's Commercial Insurance team. This document provides insight into the importance of reinsurance to a well functioning insurance company. This document is available at:

<http://www.suncorpgroup.com.au/media/public-submissions?year=2012>