

14 September 2015

Northern Australia Insurance Premiums Taskforce
The Treasury
Langton Crescent
PARKES ACT 2600

Att: Task Force Committee

Email: NorthernAustraliaInsurancePremiumsTaskforce@treasury.gov.au

Dear Committee,

RE: Interim Report Feedback Submission

Insulation Australasia (IA) is a product-agnostic insulation trade association representing insulation manufacturers, distributors and installer companies large and small across Australia.

Insulation Australasia welcomes the opportunity to comment on the NAIPT Interim Report 2015.

1. Overview

IA recognises that property insurance premiums have been impacted by cyclone activity in northern Australia causing extensive damage to buildings. Typically this damage is the result of very high winds, extreme rainfall and flooding, and when high wind and rainfall are combined the effects are multiplied. While use of the Commonwealth balance sheet would be effective in reducing the burden on insurance companies, it would not provide an incentive for property owners to take appropriate action to mitigate the risk of damage, and could therefore be counter-productive. Reducing premiums in this way could reduce the recognition of the actual cost of insurance claims for cyclone damage and, by maintaining premiums for cyclone damage at an artificially low level, insurance companies could be exposed to even greater financial risk.

2. Affordability

It is noted in the report that even with Building Code improvements, buildings can still suffer significant water damage to carpets, plasterboard and furnishings. The introduction of flood cover has also contributed to higher premiums. Incentives for the property owner to consider a selection of water resistant building materials or secondary barriers to water ingress would directly reduce the risk of loss in a cyclone event leading to reduced financial burden (in the case of underinsurance, or even noninsurance) and disruption to the property owner, it would also reduce claims on insurers. It is clear that insurance premiums have increased very significantly in northern Australia, but property owners who have taken measures to mitigate cyclone damage may well be subsidising those who don't take these measures. We would consider it unfair that those who chose to live in high risk locations would be subsidised by the rest of the population. With insurance premium prices reflecting true risk in a competitive market, the cost to the consumer would adjust to the most appropriate price point for that risk level. However, currently policy risk levels are considered regionally, rather than customised for individual properties.

3. Mitigation

The report recognises that mitigation should be an important component in the effort to reduce insurance premiums. IA is supportive of this view and would encourage even apparently simple, but effective measures, to ensure a reduction in vulnerability. Wind driven rain can find its way under loosened or displaced roof cladding, and can cause considerable internal damage to both fixtures and furnishings. Buildings constructed with materials that resist moisture or dry quickly would reduce the extent of damage and rectification work required to get the building back into service as soon as possible. This would of course, also reduce the costs of alternative accommodation and business disruption.

Reliance on the NCC to provide solutions for high risk areas would not be feasible, as the NCC is a national document for minimum acceptable performance and the identification of high risk areas, and of the risks associated with these areas, needs to be conducted regionally. Also, the process for updating the NCC is too lengthy and onerous to effect appropriate changes quickly enough to react to the identified risks. Insurance companies would react a lot quicker as risk areas are identified and the increased premium would signal the perceived risk level. Insurance premium increases also impact on existing buildings, which constitute 98.2% of the total building stock annually, and would incentive for owners of existing properties to upgrade the building to reduce their risk.

4. Mitigation assessments

We feel that a Mitigation Assessment would be a very useful tool for determining the actual vulnerability of a particular building and what level of insurance cover is really required. In these days of customised insurance premiums, made possible by greater computer capacity to process the pertinent details, the ability to customise policies is more available. By setting insurance policies for individual buildings rather than imposing regional risk levels, building owners can benefit from recognition of mitigation measures that may have been undertaken, and insurance companies would benefit from better identification of the reduced risk. There is also potential for Mitigation Assessment tools to be expanded to cover all types of storm risk, rather than just cyclone risk. Use of these tools would also serve as guidance on what mitigation measures may be most cost effective and worthwhile for the property owner.

In conclusion, Insulation Australasia is supportive of measures to reduce insurance policy premiums in regions impacted by tropical cyclone activity and we believe that incentive should be provided for property owners to reduce vulnerability by taking measures to mitigate the risks of damage caused by strong winds and water.

Yours truly,



Scott Gibson
Chairman