NORTHERN
AUSTRALIA INSURACE LOBBY

RESPONSE TO CONVERSATION PAPER

Reinsurance Pool for cyclones and related flood damage

This document has been produced by the Northern Australia Insurance Lobby in response to the Treasury Conversation Paper

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Northern Australian Insurance Lobby Background

On Monday 17th May 2021, the Northern Australia Insurance Lobby ("NAIL") announced its establishment as a not-for-profit consumer representative for policy holders in Northern Australia on the issue of affordability, and availability, of insurance in Northern Australia.

We believe a reinsurance solution backed by the Federal Government is an effective way to start to resolve the insurance crisis in Northern Australia.

We are also interested in working proactively with any group on the issue of affordability, and availability of insurance, including the reinsurance Taskforce.

Prior to our establishment, we identified there have been no apparent groups, and only individuals, who have represented consumers in Northern Australia, and for this reason we believe it is important consumers as a group are represented on this issue.

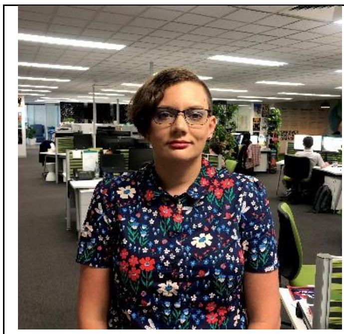
NAIL would be interested in being involved as a consumer representative in all phases of the reinsurance pool. We are here to work with the Federal Government and all parties and believe we can be an asset in this process.

We would be interested in participating in any stakeholder meetings in the future on the reinsurance pool and its implementation.

If you would like our assistance on any issues related to affordability, and availability, of insurance now or in the future, please feel free to reach out.

The Committee of NAIL

 **Margaret Shaw OAM** Co-Chair	Margaret has been an unpaid insurance advocate who has spent tens of thousands of her own money fighting for fair and affordable insurance – she started this fight on 11th June 2011. Since this time, Margaret has taken on the role of Agony Aunt to all those affected, sometimes receiving over 100 emails a week and replying to them all. Margaret has set her objectives to get affordable insurance premiums for North Queensland, and has stuck to them. She has led the fight for the plight of North Queenslanders to be recognised at all levels of Government and for action to be taken to get fair and affordable premiums for all types of policies. Margaret was the Treasurer of Seastar Apartments Airlie Beach for 7 years and previously worked as an IT Consultant (1976 - 2002) in various countries within the Financial Services, Insurance and Assurance industry from Programmer to Programme Director. In her spare time, which she doesn't have much of, she likes to read, do jig-saws and cross stitch, and bake. A published author and off-shore yacht master.
 **Tyrone Shandiman** Co-Chair *Dip Fin Serv (Brok) & Dip Fin Serv (Financial Planning)*	Tyrone is the managing director and founder of Strata Insurance Solutions since 2011 and has dealt with a number of body corporate committees who have had issues related to affordability and availability of insurance in Northern Australia. Tyrone was born in Mackay and grew up in Cairns and owns property within a strata in North Queensland. In 2016, Tyrone was awarded Queensland's Young Insurance Broker of the Year, which is awarded to Insurance Brokers below the age of 35 who exhibit an outstanding level of professionalism and integrity. Tyrone is also a director of Best Injury Lawyers and was previously the Chairperson for Open Doors Youth Service. Outside of work Tyrone has a keen interest for international travel, fitness, music festivals and the stock market.
 **Bradley von Xanten** Treasurer *Graduate Diploma Financial Planning & Advanced Diploma Financial Planning*	Bradley is a retired financial planner and since 2019 has been the chairperson of Unit Owners Association QLD a not for profit organisation representing the interests of owners of strata schemes in Queensland. Bradley is also the chairperson & treasurer of strata buildings in Mackay & Sunshine Coast. Bradley has previously worked as an intelligence analyst with the Australian Intelligence Corps and operational services in East Timor and Australian Army Training Team in East Timor. In his spare time Bradley provides pro-bono general financial advice to various entities and people in need.

 **Eva Rankmore** Secretary *Dip Fin Serv (Brok) & B.A. History and Archaeology (hons)*	Eva commenced her insurance career when she started working with Strata Insurance Solutions in early 2014. Eva has a Bachelor of Arts with a major in History and Honours in Archaeology and her academic background has complimented her involvement in the business as a detail-oriented team member. In her spare time Eva likes to work on renovations, read books, cook and ride her motorbike.
 **Councillor Jan Clifford** General Committee Member	Councillor at Whitsunday Regional Council since 2008. Jan was born in Victoria and educated in Western Australia. Moved to the Whitsundays in 1994. She is Chairperson of Whitsunday Housing Association, Director/Company Secretary of RDA - Mackay, Isacc, Whitsunday. Director of the National Rural Women's Coalition. Member of the Queensland and National Executive of Australian Local Government Women's Association. Director of the Greater Whitsunday Community board. Chair of the Environmental Disaster Recovery group. Jan has an extensive background in Sales and Marketing, Manufacturing and retail.
 **Terry Brown OAM** General Committee Member	Committee Chairperson for Sea Star Apartments and owner of six Barber's shops from Rockhampton to Townsville.
Jeff Aquilina General Committee Member	Managing Director of at Hotel Group (managing 7 resorts/holiday apartments in Whitsunday)

Background to the insurance crisis

It began in 2011, after TC Yasi strata premiums in the Whitsundays increased by 200-600% overnight with no claims and no warnings, even though the epicentre was nearly a day's drive north. In Cairns increases were up to 800% and Hon George Christensen MP had an example of 1,000%.

NAIL Co-Chair Margaret Shaw (Margaret) lived in Airlie Beach had premiums which went from $25,000 to $81,000 for 25 apartments. The then Treasurer hadn't budgeted for such a massive increase, they didn't have time to raise an EGM for the extra funds, the Treasurer couldn't cope and had a breakdown. This is when Margaret became involved and took up the cause for fair and affordable insurance premiums for North Qld.

Her first email was written 11th June 2011.

At the end of 2011, with the support of Hon Warren Entsch MP and Hon George Christensen MP the Federal Parliament decided to hold a Cross Party Federal Inquiry with all major political parties recognising the problem. The Inquiry was held in February 2012 and many thought it was the beginning of the end but they were wrong. It came up with 9 recommendations, all of which were rejected by the then Government.

Since 2011 there have been huge increases in insurance premiums, of all types, in northern Australia – home and contents started to increase in 2012, rural insurance proved difficult, business insurance became a joke, and if you have a boat not in a marina…...

Even Allianz stated 'average premiums were 2.5 times more than elsewhere but that some homeowners faced premiums of **ten or fifteen times those of other Australians'.**

In 2015 IAG (the biggest insurance group operating in Australia) stated **more than 30,000 households per year were leaving the market and the crisis was affecting more than 3,000,000 Australian adults.** In 2020 the ACCC stated up to 40% of Cairns, Townsville and Mackay no longer had home insurance.

Millions of dollars have been allocated for various inquiries, grants and projects. However, the 2018 – 2020 ACCC Insurance Inquiry into the affordability of insurance in Northern Australia was the first Inquiry where the insurance companies were compelled to handover the information required. This Inquiry too failed to recommend a permanent solution but did come up with 38 recommendations, some of which have been seen before on more than one occasion, none have yet been implemented and in fact the 5 which relate to State Government have been rejected already.

NAIL believes premium reporting of average premiums and excesses by the ACCC did not fully demonstrate the dire circumstances some policy holders are facing. For example, the report suggests average premium and excesses for strata are double in north Queensland. We know there are buildings that are paying up to twenty times the premium and cyclone excesses that are in excess of $500,000. The reporting of average premium and excesses has understated the true impact on the most affected policy holders.

April 2021 there was another Senate Inquiry into "Opening the North" and whether it can be done with insurance the way it is. Consumers believe it cannot.

There are very few insurance companies covering strata over the valuation of $5,000,000. The two that do, SCI (ALLIANZ) and SUU (IAG) are at capacity and predominantly only insuring existing clients. CHU is only writing insurance for specific Body Corporate Management companies. Compounding this problem, in 2020 Brooklyn Underwriting withdrew from the market leaving more complexes without insurance. Given all local insurers who insured strata buildings in excess of $5,000,000 were at or close to capacity, this made it extremely difficult for complexes to find insurance. It is reported Swiss Re are also withdrawing from the market, leaving even more complexes uninsured.

What this means for consumers is that they had to approach brokers to source quotes at much higher rate on the international market and not in compliance with their requirements under the BCCM Act. The BCCM Commissioner has had to allow many strata complexes to be in breach of the current Queenland legislation which requires complexes to be insured for full replacement value including clearing the land and professional fees.

Those complexes using parametric cover do not satisfy Queensland legislation, and have very little idea of the lottery they may have let themselves in for.

Those that have insurance are being charged exorbitant rates. Prior to 2011 $800 -$900 per unit per year was the norm. Now:

- $4,000-$5,000 is not uncommon
- $5,000-$6,000 is not unusual
- Two complexes, one in Townsville and the other in Mackay are looking at $7,000-$8,000 per unit
- One complex in Airlie Beach Is currently paying $11,000+ per unit per year

And just to make matters worse, named cyclone excesses up to $500,000.00.

Consumers believe there has been market failure in the insurance industry in Northern Australia but the Insurance Council of Australia has spent nine years disagreeing as they say if you can get a quote, any quote, then it isn't market failure. This viewpoint has changed within the last year as people have proved they actually cannot get a quote.

If there is a monopoly in the insurance industry for a particular area - market failure. For consumer, NAIL believes the below are market failures:

- If you can not get a new business quote
- If you stop development and investment in an area because of the cost of insurance
- If people walk away from insuring leaving themselves vulnerable
- If you can not afford your insurance
- If a strata property has to go to the BCCM Commissioner to become legally underinsured against legislation

"Insurance is not a luxury, it is a necessity, and it HAS to be affordable."

Key Priorities for Consumers

We believe that in order to effectively design the Reinsurance Pool, the Taskforce must first understand the outcomes it is trying to achieve. After years of advocating on behalf of policy holders in the North on an individual capacity, members of NAIL have come up with a key set of priorities that we believe should be desired outcomes for the Taskforce:

- Consumers in northern Australia should pay no more for their insurance per dollar value insured compared to policy holders in other parts of Australia with similar natural disaster risk, such as bushfires see question 22.2 point 10
- The reinsurance cost payable by consumers should not attract state government stamp duty, GST or commissions – for example this may be done by charging the reinsurance cost as a levy and not as part of the premium.
- The eligibility criteria for the reinsurance pool should extend to as many policy holders as possible.
- Design and pricing should be easy for the ARPC and insurers to implement, and easy for consumers to understand how they can continue to reduce their premiums

In addition to our key priorities, NAIL believes the below items should be tabled for discussion:

- A portion of reinsurance premiums collected should fund mitigation measures;
- Risk assessment should be done on any type of property at the request of the owner, with proper dispute resolution process;
- The reinsurance pool should be expanded to cover a broader range of events or all catastrophe events in the future.

Summary of key features

Risk coverage

It is noted inclusion of the Australian external territories will be decided by the Taskforce.

According to Barry Haase, Administrator Indian Ocean Territories (IOT) in 2015, insurance of any description is denied to residents.

The Taskforce must consider the fact that many IOT residents are assessed by insurers as uninsurable, resulting in the situation that bank finance for home purchases on Christmas Island and the Coco (Keeling) Islands is virtually unattainable because properties are deemed to be uninsurable, affecting economic activity.

Insurance policies to be covered

Household, strata and small business.

1. Define households

   A household can be: a house; strata; boat; anywhere a person can legally live. However, are residential homes defined as households?

   Covered further in the discussion document.

2. Define small businesses

   Are Councils defined as small businesses?

   Covered further in the discussion document.

3. Splitting reinsurance sources

   The implication is the reinsurance pool will be available for insurance companies for certain types of policies but not all. This means insurance companies have access to the Government reinsurance pool for some of their business but not others for the same event. The outcome of this means insurance companies will have to get two sets of reinsurance as Insurers would need to remove these risks from their private reinsurance contracts BUT only for some types of policies.

   We believe the other current reinsurance pools mentioned in the conversation paper cover <u>all policies for a defined event</u>, although it is noted there may be restrictions goverened by date or location. This reinsurance pool is being designed to cover some policies for particular events.

   Input from the ARPC and insurers will determine whether this is feasible.

   NAIL believes this could be a very important point to be resolved.

It is necessary to define what the Taskforce includes in it's scope of work and what is excluded.

Reinsurance pricing and product design

Reduced reinsurance premium per property based on an individual property's risk profile resulting in higher risk properties receiving higher discounts, is extremely complicated from a consumer's point of view. We believe risk should be assessed and not assumed and there should be a pricing mechanism for higher risk properties as currently properties who could be considered low risk are also paying up to twenty times more than policy holders in Southern Australia. We understand from ARPC individual property risk assessment is feasable.

The design of the reinsurance pool must avoid the situation where only high risk properties receive the benefit of the pool.

It will be incredabily complicated to compute the discounts which will apply for which properties. This is entirely out of the current skills and systems the ARPC have, however, we understand this is already being addressed by the ARPC.

Funding arrangement

NAIL would like to explore further which will be better for consumer a mandatory or optional reinsurance pool for insurers.

Information provided to NAIL suggests that consumers may occassionally receive a better outcome for their insurance premiums if insurers are able to source their own reinsurance for a better price than offered by the government reinsurance option. The ARPC have stated previously that in order to maintain their relationship with stakeholders of the existing terrorism reinsurance pool any contributions to a new reinsurance pool should remain voluntary.

However, we are interested to hear from relevant parties whether making the reinsurance pool optional for insurers has a downside for consumers.

Government Guarantee

A Government guarantee of $10,000,000,000 is suffient.

According to the ICA the 1999 Sydney hailstorm was the worst disaster for insurance looses since 1967.

*"The **1999 Sydney Hailstorm** resulted in an estimated AUD$2.2 billion in damage (EMA, **1999**; in **1999** dollars), making it Australia's most **costly** severe convective **storm** to date. With insured losses reaching AUD$1.7 billion, it is additionally the largest absolute insured loss in Australian history."*

Note: This loss included properties and losses not associated with residential homes, contents, strata and small business.

Administration vehicle

The Australian Reinsurance Pool Corporation (ARPC) should be totally capeable of running the new reinsurance pool as they have been running the terrorism reinsurance pool since 2003. It already has the skills and systems to take up this challenge and these will help them with engagement with insurers and reinsurers..

In their own words: *"The ARPC exists to address market failure where there is insufficient insurance or reinsurance capacity or unaffordable insurance or reinsurance capacity."* Submission to the NAIP Taskforce September 2015.

The ARPC would look to support the market through subsidised reinsurance, and the use of retrocession reinsurance, and not replace the market.

However, they may require some work on the claims side as claims on the terriorism pool have been very few (we understand there may have only been one?) and claims for cyclone and flood damages are likely to be more frequent. Extra staff may be required.

Reinsurance pool design considerations

Reinsurance pool coverage

How should "cyclone and related flooding" be defined?

From a consumer point of view, definitions should be as simplistic as they can be, allowing them to be easily understood.

Definition of a cyclone – Question 1.1

Cyclone should be simplistically defined as a named cyclone declared by the Bureau of Meteorology. You cannot have an un-named cyclone.

Definition of cyclone related flooding – Question 1.2

We would suggest:

The covering of normally dry land by water that has escaped or been released from the normal confines of: any lake, or any river, creek or other natural watercourse, whether or not altered or modified; or any reservoir, canal, or dam due to the presence of a cyclone in the vicinity of the catchment area or the overflow causing the escape of water.

A cyclone might fill a dam but once it overflows it becomes a cyclone related flood.

The problem is with blue-sky flooding, where a cyclone may hit Townsville but due to the flow of rivers and creeks, down river Mackay could flood.

If a lake, or any river, creek or other natural watercourse, whether or not altered or modified; or any reservoir, canal, or dam has been filled (or raised in level) due to a cyclone which has since been downgraded to a tropical storm, then if there is a further storm or rain event which causes an overflow that should not be a cyclone related flood as the cyclone was not responsible for the final overflow.

Storm surge – Question 2

We believe the reinsurance pool should cover Storm Surge (in accordance with accepted industry definitions) that results from a named cyclone declared by the Bureau of Meteorology.

NAIL understands it may be difficult for insurance companies to do otherwise.

Standardisation of concepts in contracts – Question 3

As noted by the ACCC, it is desirable for standard definitions to be used across all insurance policies, rather than them change from one insurer to the next.

Therefore, it is desirable for the use of the standard definitions of "cyclone" and "cyclone-related flooding" to be required in policies covered by the pool AND those not covered by the pool.

Which insurance policies should be eligible for cover?

Household property policies – Question 4

The terms used are too general and problems will arise in this simplicity.

We have used STRATA to mean any property which has a common area, including Retirement Villas, duplexes, holiday lets, residential, gated communities etc which do not actually fall under the term of STRATA.

Tourist complexes, holiday homes, caravan parks, live-on boats and hotels/motels do not fall under residential, even though people live in them on a permanent basis.

We need to make sure any recommendations apply to as many types of property as possible, or feasible, taking cost into consideration.

Home insurance can be difficult to define: normal home building and contents; rural insurance covers the home; landlord's insurance covers the property as well as extras; schools take out contents insurance. Are we to include these?

We believe the reinsurance pool should cover all fixed buildings used for residential purposes, including mixed use buildings where residential use is more than 20% of the building use.

We believe the reinsurance pool should also cover strata buildings that form part of an accommodation module.

Small business property insurance policies – Question 5, Question6, Question7, Question 8, Question 9

Question 5 – Are insurers able to separately price or estimate the value of the property component of business insurance packages?

NAIL understands insurers already separately price differing components of a business package policy for example property insurance, business interruption, public liability etc.

Question 6 – Are insurers able to separately price or estimate the value of the residential and small business components of mixed-use strata title policies?

Yes, NAIL understands the Terrorism Insurance Scheme currently extends to cover buildings that are used for more than 20% commercial use. Policy holders are required to declare the usage of the building and percentage of floor space for use to allow insurers to apply the terrorism levy once commercial use exceeds 20%.

Question 7 – Are there any difficulties which may arise from including mixed-use strata title policies in the reinsurance pool and how should the scope of this coverage be clarified?

One apparent difficulty could occur when there is a mix of business that are deemed "small business" and ones that are not.

Question 8 – How should "small buisness" be defined for the purposes of eligibility?

Whilst we appreciate the Australian Small Business and Family Enterprise Ombudsman's recommendation of "small business" as being: a business with less than $10 million in turnover or fewer than 100 employees, we would consider the definition under the General Insurance Code of Practice: a manufacturing business with fewer than 100 employees or a non-manufacturing business with fewer than 20 employees and a turnover of less than $10 million, to be more appropriate.

Question 9 – Are there any difficulties which may arise from including small business property insurance policies in the reinsurance pool and how should the scope of this coverage be clarified?

NAIL believes inequities can arise when a small business leases their premsies from a landlord who is not considered a "small business". If the insurance for the landlord does not fall under the reinsurance pool it can mean the cost of insurance is passed on to the tenant (i.e. small business) through higher outgoings or rent. Compare this to a small business that owns and occupies their premises and has access to the reinsruance pool which means the insurance cost associated with the building is lower.

One way the reinsurance pool may overcome this issue is to set a higher limit for cover for property owners or consider acceptance of the reinsurance pool based on the tenant.

Reinsurance product design and insurer participation

How should the reinsurance product be priced and designed?

Measuring cyclone and related flood damage – Question 10

This question is directed to insurance companies and cannot be answered by NAIL.

Using a tiered risk rating system – Question 11

In an ideal world, all properties in affected regions will have a thorough risk assessment conducted with mitigation recommendations. But it is important to consider whether the cost of assessing each individual property increases the cost of premiums and therefore whether such an action is justified.

The design of the reinsurance pool must avoid the situation where only high risk properties receive the benefit of the pool and those of lesser risk receive very little.

Retention by insurers – Question 12

The retention (or attachment point) is the amount the insurer must pay before the reinsurer will refund any amounts.

Excess-of-loss reinsurance covers losses above a defined limit. The insurer covers any claims up to an amount and then can claim from the reinsurer losses above the limit – called the retention

The retention point needs to be high enough to ensure the Government guarantee is not called upon for small events.

In terms of whether the retention should be a percentage or dollar amount, NAIL believes this is a matter for insurers to provide appropriate guidance to the taskforce on this topic.

NAIL believes that retentions should not favour larger insurers with greater capacity to pay a larger amount of a claim.

The model provided for by the terrorism insurance pool, whereby retentions are calculated as a percentage of premiums collected by the insurer, means that smaller insurers have smaller retentions.

The claims management process – Question 13

NAIL believes claims management should not be affected too much as the insurers will claim from the Government reinsurance pool after they have settled the policy holders claim, in a similar way to how they claim from their reinsurers now. Claims management should be based on best practice for consumers.

How should insurer participation and transition to the pool be managed?

Insurer participation – Question 14

NAIL would like to explore which is better for the consumer, a mandatory or optional reinsurance pool.

Information provided to NAIL suggests that consumers may occassionally receive a better outcome for their insurance premiums if insurers are able to source their own re-insurance for a better price than offered by the government reinurance option. The ARPC have stated previously that in order to maintain their relationship with stakeholders of the existing terrorism reinsurance pool any contributions to a new reinsurance pool should remain voluntary.

However, we are interested to hear from relevant parties whether making the reinsurance pool optional for insurers has a downside for consumers.

Transition into the reinsurance pool – Question 15

This question is best answered by insurance companies. We believe rollout timelines should be easy to understand for consumers.

Reinsurance pool governance and monitoring

What are the most appropriate governance and review arrangements?

Regular review of the reinsurance pool – Question 16

The key goals of any review should include:

- What savings the insurers are making
- Whether those savings are being passed onto the consumer
- The actual reduction in premiums
- Whether insurers are returning to the market in northern Australia and what products they are offering
- The number of people now properly insured where they have been either non-insured or under insured in the past
- Indicators of on-going market failure
- Whether ARPC are collecting enough reinsurance premium to cover payment of claims and operating expenses
- Whether the reinsurance pool is in a loss situation
- Whether eligibility criteria is meets the needs of consumers in Northern Australia or if it should be expanded

NAIL feel it is important to have an initial review of 12 months in order to ensure reinsurance savings are being passed onto the consumers.

We would then suggest a follow up review in an additional 12 months as more insurers review their current reinsurance arrangements and join the reinsurance pool.

Should the reviews be satisfactory, then a biennial review should be sufficient from then on. We are suggesting a shorter review for the cyclone and cyclone-related reinsurance pool then the terrorism pool as the former is likely to be called on more often than the later.

Reinsurance pool lifespan – Question 17

NAIL believes there should not be a planned exit date as the cyclone exposure for communities in Northern Australia will remain for the foreseeable future.

Economics shows that when you increase supply prices will reduce – if you remove supply prices will increase and removing the reinsurance pool is reducing supply.

We understand the Federal Government has already suggested a review in 10 years and we support this.

If there were to be an exit date then it is extremely important mitigation projects be encouraged and helped financially, and that insurers take notice of the mitigation projects undertaken, which most don't at the moment.

Given the losses due to bushfires, flood, hail and other natural disasters in other parts of Australia it would not be surprising for this reinsurance pool to be expanded at some point in the future and any set exit date moved.

How can the pass-through of insurance premium reductions for consumers be encouraged?

Price monitoring – Question 18.1

The problem with general insurance is there is no current watchdog, as with life insurance/assurance which is monitored by the Australian Prudential Regulation Authority (APRA). The insurance industry currently monitors itself. This is not satisfactory.

It is the general consensus amongst consumers the insurance industry requires further regulation and a Watchdog, with the Chamber of Commerce and Industry Queensland even stating in section 5.0 Queensland Business Insurance Report July 2015: "*The ICA also recommended that further work needs to be done on behalf of the Federal Government to ensure that there is appropriate regulation of the insurance industry"*

NAIL would like to make sure, since further regulation is required, any Watchdog be independent of the insurance industry itself, as suggested in other submissions to the various inquiries, and the APRA considered as the best option.

NAIL believes for price monitoring the public sector option maybe the direction to head in after implementation of the reinsurance pool due to its ability to compel information.

In addition, we recommend the Taskforce discover whether private sector data gathering could be effective within the first two years.

Disclosure reforms – Question 18.2 and Question 18.3

Insurer's disclosure requirements are covered by a number of Acts: the Corporation Act 2001 (Chapter 7); the Insurance Contracts Act; the Insurance Contracts Regulations 2017. All of them taken together state the specific information insurers must give consumers on the purchase or renewal of an insurance product.

Consumer protection measures in regards to financial products and services are covered in the ASIC Act.

The 2017 Senate inquiry, which Margaret Shaw OAM presented at, recommended the Government have an independent review of the standard cover especially in regard to the efficiency of the disclosure requirements. Consumers are still waiting.

The Insurance Contracts Act states insurers are to act in good faith and disclosure. It sets out standard cover and requires insurers to provide consumers with defined information. NAIL believes the Act is not detailed enough.

In addition to all these various Acts, general insurers and brokers can choose (not mandatory) to be members of voluntary codes of practice which set the standards for their industries: the Insurance Brokers Code of Practise 2014, set and updated by the National Insurance Brokers Association (NIBA); The General Insurance Code of Practice 2014 set and updated by the ICA (last updated 2020 with new recommendations to launch 1st July 2021). Note: currently the Broker Codes of Practice stipulate brokers must act in the interest of the consumer at all times, the General Insurance Codes do not.

Disclosure of information to consumers by insurers has been discussed in a number of inquiries and have highlighted shortcomings in the requirements of disclosure, however, changes have been few and far between.

Among the many have been:

- The House of Representatives Standing Committee on Social Policy and Legal Affairs inquiry into the affordability of residential strata title insurance 2012
- 2014 ASIC released 2 reports into home insurance purchases
- Financial Services Inquiry 2014
- Productivity Commission Inquiry into Natural Disaster Funding Arrangements 2015
- Northern Australia Insurance Premium Taskforce 2016
- Senate Economics References Committee inquiry into insurance 2017
- Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry 2017
- ACCC insurance affordability inquiry 2018-2020

Consumers have seen the same recommendations on numerous occasions.

Things that should be disclosed to consumers on their invoices:

- Breakdown of premium calculation:
  - The difference between paying annually to paying monthly
  - Premium cost, or saving, of inclusions and exclusions whether they are optional or mandatory
  - Discounts that will be applied for named mitigation measures
  - **Reinsurance costs**
  - Premium discounting or loading
- Sum insured and any excess for named events
- Commissions being paid and to whom
- Government charges such as stamp duty and GST

Consumer advocacy groups have, for a long time, asked for greater transparency in premium pricing and better disclosure of information.

Links to risk reduction

How can the reinsurance pool help encourage mitigation?

The responsibility for providing discounts for mitigation projects on individual properties should be the responsibility of the insurer and not the reinsurance pool.

You are asking the ARPC to act as an insurer rather than a reinsurer.

Question 19

Currently NAIL is only aware of SURE Insurance, RACQ and Suncorp Strata Direct (not AAI) have the ability to give discounts for mitigation projects. Most other insurance companies/products do not have the systems in place to recognise mitigation and apply discounts. This means consumers do not often see the benefit of their work in reduced premiums.

This has been addressed by both the Royal Commission, the ACCC and other reports/inquiries.

Question 20

Mitigation can be encouraged on a large scale and on individual properties, which is much harder.

For the larger picture the reinsurance pool could look at applying discounts to insurers who can prove they are not only encouraging mitigation but also rewarding the mitigation projects undertaken by their customers.

These figures could be made available to the ARPC and the encouragement of insurers for their customers to undertake mitigation projects in return for individual discounts should result in lower claims, so calling on the reinsurance pool to a lesser extent.

NAIL believes the reinsurance pool should have an explicit mandate to encourage mitigation, in the form of discounts to insurance companies encouraging projects.

NAIL feels it would be hard for the pool to be expected to provide discounts for individual properties and that should be left to individual insurance companies. This can be defined as doing work on a property in order to reduce any damage which may happen during a cyclone.

With the exception of Suncorp (not AAI), SURE Insurance and RACQ we are not aware of any other insurance company taking notice of any mitigation which has taken place on an individual property. If an insurance company cannot offer discounts for mitigation it would be very hard for the ARPC to do so.

Risk is assumed and not assessed.

It can be as simple as taking down any outside sails, bringing in outside furniture and toys, or as complicated as replacing old rooves with new rooves and joists, and tie down points to prevent damage or applying an excess for damaged caused by or to these items.

The good thing about this type of mitigation is that proper risk assessment has to take place in order to identify anything that can be done to reduce damage.

The bad thing about this type of mitigation is the cost and the potential reduction in premium.

We believe mitigation procedures for individual properties in the long term may only reduce premiums by about 10-15%, that's $400 on a premium of $4,000. It still comes down to whether $3,600 is justifiable or affordable.

Spending $20,000 - $30,000 on a new roof in order to save 10% on your premium and to save a "possible" claim of $50,000 for an insurance company is impossible to sell to consumers.

Mitigation has been pushed hard by the Insurance Council of Australia, who in the past have totally believed this is the one and only solution.

We think the only way mitigation can be a major feature considered for reducing insurance premiums is if the cost is paid for partially by the reinsurance pool itself.

How will the reinsurance pool avoid encouraging increased risk taking?

Question 21

NAIL believes that measures should be put in place to discourage development on land that could have an exposure to cyclone related flood damage. We would be in favour of this specific event being excluded for new builds but we are not in favour of a blanket exclusion for new builds.

The current building standards are there to prevent loss of life, they are not designed to prevent damage due to cyclonic winds, such as water ingression. Until something like this is taken into account when building new properties new builds cannot be excluded from coverage by the reinsurance pool for cyclone risk.

Question 21.1

There should not be a time-based cut-off to exempt new builds from the benefits of the pool, particularly whilst the Government is encouraging the building of new homes and looking at more social housing.

Question 21.2

In theory all new builds should satisfy the building standards.

However, there have been problems in the past with buildings being passed as fit for purpose but later being found not to satisfy the standards, causing problems. The review of new buildings must be taken seriously rather than approvals being given without the building actually being inspected.

The Cyclone Testing Centre based in Townsville has done major research on buildings and building codes separately, and together with, the ICA and are better to comment on this.

Experience proves some Councils are not as strict with their town planning as others.

According to the maps a high percentage of Townsville is in a flood zone and most of it rarely floods, but all of it is in a cyclone zone. So, who is to decide, and define, what a suitable location is?

How might the reinsurance pool encourage further action on insurance affordability?

Question 22

Question 22.1

Nail believes research is required to see whether costs associated with re-insurance could be billed to the consumer as a levy rather than part of the premium, therefore, not attracting stamp duty, GST or commissions.

Question 22.2

1. As per ACCC recommendation remove stamp duty from insurance products
2. Remove the tax on a tax, where GST is added after the stamp duty has been applied
3. Flood mitigation

   If north Queensland was its own country, it would be one of the wettest in the world.

   One of the largest rivers in Australia runs through north Queensland, the Mitchell, none of this water is being captured and areas throughout Australia have suffered, and will suffer, drought.

   Northern Australia needs dams, 2-4 dams actually.

   The ICA say mitigation is the way to go, so go there in a big way.

We understand this won't help cyclone damage, well not by wind, but it would alleviate some of the damage caused by floods after cyclones. ALSO, water contained in the dams could be used in time of drought to aid the farmers, and also to open up further huge areas of land for agriculture.

4. Full disclosure of all commissions and third-party payments

   NAIL believes that more transparency around commissions and third party payments would provide the consumer a better understanding how much of the premium they pay actually goes to the insurer.

   We believe that all quotes issued by insurance brokers or intermediaries that receive commission should display the commissions and fees payable at the time of making a buying decision. This would extend to any other financial benefits such as "profit shares", "overriders" or "marketing fees" that are paid by the insurer to the broker or intermediary.

   We are aware of examples in strata insurance where an insurance broker is engaged by the strata manager who receives a referral fee/commission from the broker. The broker provides the strata manager a quote with the total premium payable displayed – the quote does not disclose fees, commissions or payments to the strata manager. The strata manager passes the quote onto the committee and upon acceptance of the quote an invoice is provided to the strata manager with a breakdown of the premium – this invoice is not provided to the committee. What is not disclosed to the committee is that fees and commissions make up 40% of the premium payable when industry standard commissions are 20%.

   In 2015, NSW introduced legislation requiring strata managers to disclose commissions payable on general meeting documents. As legislation is limited to disclosure of commissions payable to strata managers, there are ways to circumvent disclosure of other financial benefits for example a broker issues a policy with a commission payable to the strata manager that is disclosed. What is not disclosed is other payments such as profit shares made by the broker to the strata manager. If brokers fees and commissions were required to be disclosed along with payments by the broker to the strata manager, better transparency of the premium breakdown would be provided to the consumer.

   NAIL believes that a full premium breakdown should be provided to clients:

   1. At the time of making a buying decision.
   2. In the case of strata insurance, the premium breakdown should be supplied to the committee with any proposal or quote. The breakdown should also be supplied on Annual General Meeting documents.

   An example of how the premium may be displayed on an invoice or quote is below:

Base Premium:	$10,000.00
State Levies:	$0.00
Stamp Duty:	$990.00
Broker Fee:	$2,000.00
Insurer Admin Fee:	$100.00
GST:	$1,210.00
Total Premium:	**$14,300.00**

A commission of $2,000.00 is paid by your insurer from the base premium to us.
A referral fee of $3,000.00 is paid to ABC Strata management from our fees and commission.

5. Australian Financial Complaints Authority

   There is a limit as to how big a claim the AFCA can deal with, which is why there are some people still in court due to Tropical Cyclone Debbie.

   Raise the limit or remove it entirely and let the AFCA do their job properly.

6. Sensible time lapses for strata insurance

   We need sensible time lapse for insurance to be arranged. It is currently four weeks but in the case of strata that is for the Body Corporate Managers and not for the Treasurers and Committees.

In the examples given to various Inquires, one complex only had 36 hours between getting a quote from their BCMs and having to pay it. The normal time was less than two weeks between getting a quote and it being due.

Body Corporate Committees using Body Corporate Managers have not been given time to arrange EGMs so special levies can be raised in order to pay the increased premiums. Occasionally time has been so tight that it hasn't even allowed the Committee to set up an insurance premium loan.

With insufficient funds the Committee has to organise an EGM (30 days notice) to issue a special insurance levy with thirty days to pay in the hope all owners pay on time.

Insurance companies will not quote an insurance policy more than four weeks from renewal. This needs to be expanded to at least six weeks which allows for EGMs, special levies, loan applications etc. as required.

Body Corporate Managers should have to produce their quotes at least four weeks prior to renewal.

This might remove the need for premium loans, which can add thousands to the cost of insurance, as there would be time to raise the extra money.

7. Variable payment periods

Annual insurance policies should be allowed to be paid monthly or quarterly with little or no interest being applicable.

8. No claims bonus

If a property hasn't made a claim then premiums should not increase over an agreed percentage or, in fact, at all.

The fact that a property has not made a claim does not seem to have any influence over the increase in premium.

There are no claims bonuses for all sorts of insurance policies, but not for property insurance. In fact, the ACCC report stated there was a loyalty tax of up to 17%.

Surely if a property has not made a claim in the past 12 months then the insurance premium should not go up, and insurers must be persuaded not to apply a loyalty tax.

Something like this would also help to prevent people from claiming when they actually shouldn't be. We all know it happens but if they were to gain the possibility of an increase in premium then maybe it wouldn't happen so much.

9. Repair Quotes and wasting money

Insurance companies would appear to be wasting money when it comes to claims, they need to accept the best and most efficient quote for repair work.

Insurance companies often use contractors from the south to do repairs in the north. Sometimes this is unavoidable, however, where local quotes are available they are not being taken. It has also been proven consumers are not being listened to when they complain the company is being ripped off.

Insurance companies should get 3 quotes for repairs where-ever possible, one of which must be a local contractor – they can ask the owner to do this for them if it's too much trouble for the company itself. The 3 quotes should be presented to the owner as proof the legislation has been adhered to, with an explanation as to why the accepted quote was chosen.

Insurance companies have been complaining they are spending more out than they are getting in. However, look at these examples.

"We are being ripped off! My premium has increased by 280% in the past 2 years. After Cyclone Yasi I had a claim - a local builder mate of mine assessed the damage and said $9000 would fix the repairs. The insurance mob, hired a Gold Coast firm to do the repairs, the job was shoddy and I had to get them back to re-repair the work, during a conversation with the contractor, he revealed that he didn't mind coming back as there was 'plenty of fat' in my job, and the release proved that - they were being paid $31000 to do a $9000 job - that in a nutshell, is why my premium has increased, its nothing to do with the 'dangerous weather', it's to do with the incompetence of the insurers and their resultant waste of money!"

A second example shows a job quoted locally in Townsville at $2,500 cost $16,000 through a south east company and they charged the insurance company for scaffolding – which wasn't used. The owner called his company to tell them they were being ripped off, but the insurance company said it wasn't his problem so long as the job was done.

As a Lawyer who signed the online petition at change.org wrote:

"The insurers have themselves to blame for the costs blow out. I have heard of many cases where assessors appointed builders who had quoted silly amounts and got the jobs over local contractors who had quoted ½ or 2/3 of the amount of the successful tenderer. If it wasn't crooked it was grossly negligent."

Unfortunately, it's also been proved that some insurance companies haven't been checking whether the builders they employ have the correct tickets for the job, resulting in jobs needing re-doing. This was evident after TC Debbie. Scope of works are insufficient after the Townsville floods a 9 page scope of work ended up as 23 pages) **AND** repairs aren't being done according to Council regulations and standards.

This is a true story:

A house in the Whitsunday area was damaged due to TC Debbie, March 2017.

An Engineer was employed by the insurance company and spent 6 hours coming up with a scope of work. The owners were offered $18,000 as a cash settlement, and when the owners refused this amount it was intimated there may not be an actual pay out at all.

Fortunately, these owners are business people and fought the decision.

Another Engineer came, he turned up with no pen, no paper, no tape measure to develop another scope of work, but didn't get into the roof because it was "way too hot". He spent 21 minutes on site.

The owners were then offered $70,000.

The property was moved into during May 2018. The scope of work was eventually signed off at $189,000 with an additional $55,000 in variations to the scope and an additional $38,000 for temporary accommodation.

In 2019 there were still outstanding issues: the new guttering and down pipes went straight to the ground although Council insists they have to go to a storm water drain; under the brand new roof water proofing was missing in some places which the builder stated is OK but was included in the scope of work.

AND this is for certain that when people called their insurance company after TC Debbie to claim on their contents insurance for food in fridges and freezers which had to be thrown away, multiple times the claim was $200 but they were told the minimum amount that could be claimed was $500 so "We'll just make it that, shall we?" was the attitude of the insurance companies.

Instead of encouraging people to claim more, reduce the excess so they can claim the correct amount instead.

10. Aim for parity in premiums throughout Australia

JCU have produced, tested and put into implementation a system to assess strata risk and identify mitigation measures.

The suggestion is to expand the concept to include all residential properties in order to produce a true "risk rating" score for a property. This risk rating should be based on the perceived damage which could occur, and actual risk, to a property in the event of a cyclone and cyclone-related flooding.

If proper risk assessment is undertaken by use of the system and risk assessment reports are produced with a given risk rating based on the likelihood the property would sustain damage due to cyclone or cyclone-related flooding then all properties with the same risk rating should be quoted the same base premium by an insurance company.

Then adjustments could be added for pools, lifts, playgrounds, business interruption etc.

This risk rating tool could then be expanded to include other natural disasters.

In this way a property would get a final risk rating based on set parameters, their structure and include their risk of being damaged due to bush fires; cyclones; floods; storm surges; hail etc. It would become simple, since all buildings with the same risk rating should be quoted the same base premium by a company NO MATTER the location of the building, which has become irrelevant.

Parity for all buildings with the same risk rating throughout Australia!!

The expansion of the Damage Risk Assessment/mitigation checklist to include a full risk rating could be undertaken by the JCU Cyclone Testing Centre in conjunction with Building Consultants and a Consumer Representative.

The cost and feasibility of this is yet to be determined but, if feasible, should not be excessive. The cost of the report production would also need to be examined, but being optional would only be undertaken as a case of necessity.

Any risk assessments report needs to be really transparent and contestable with a properly set up dispute resolution process.

ARPC terrorism reinsurance functions

How might the ARPC's terrorism reinsurance pool functions interact with its new functions?

This is best answered by the ARPC.

However, NAIL is aware the Public Governance, Performance and Accountability Act 2013 has replaced the Commonwealth Authorities and Companies Act 1997 and the ARPC now fall under the former.

Their current purpose is to protect Australia from economic losses caused by terrorism, and their role is to provide cost effective reinsurance to support economic resilience. There appears to be little change in the purpose and role with the introduction of an additional pool.

The strategic planning for the new reinsurance pool will be different to that of the current terrorism pool in so much that the risk environment will differ.

The ARPC have already looked at the coverage of mixed-use residential and commercial buildings with regards to terrorism and it is hoped a similar review with respect to cyclone and cyclone-related flooding can occur.

NAIL feel the existing ARPC has already proved itself in reducing their own risk through efficient and effective government reporting whilst maximising their financial performance to strengthen their financial position.

NAIL believes the ARPC will use their skills to provide cost effective reinsurance to support the economic resilience of northern Australia and it's consumers.