

Monday August 17, 2015

Taskforce must focus on improving cyclone resilience

The Insurance Council of Australia (ICA) notes the release today of the interim report of the Northern Australia Insurance Premiums Taskforce. The ICA will examine the myriad highly complex issues it poses for further exploration.

ICA CEO Rob Whelan said the insurance industry was pleased practical and sustainable solutions were canvassed in the report alongside options that would require enormous government funding. He said the ICA was committed to continue working with the taskforce and the government.

Mr Whelan said improving the strength of properties in cyclone-prone regions to withstand the external and internal damage caused by cyclones and wind-driven water was the most appropriate long-term solution to reducing insurance premiums.

He said: "Government intervention through a taxpayer-funded mutual or a reinsurance pool would be an incredibly expensive and unnecessary interference in a functioning market. In all likelihood intervention would not achieve the objectives the Abbott Government is seeking.

"The issue in North Queensland is its exposure to cyclones and the damage that properties sustain. The focus must be on improving properties and communities in cyclone-prone regions, rather than ask taxpayers to subsidise them indefinitely.

"The report highlights the fact the cost of insurance claims in North Queensland are five times higher than in Brisbane, Sydney and Melbourne, and that insurers pay out \$1.40 for every \$1 they have been receiving in premiums for many years. Insurers have paid more than \$3.4 billion in cyclone-related claims in North Queensland since 2008.

"The report reveals a huge number of properties were built before cyclone codes were introduced, and that buildings that comply with the code still suffer cyclone damage.

"It provides evidence that government intervention overseas has in almost all instances only resulted in multi-billion-dollar ongoing liability for taxpayers and government deficits, as well as perpetuating the problem by encouraging inappropriate development in high-risk areas. The report says a dozen insurers offer products direct to consumers, with other products available through brokers. This proves the market is competitive and is functioning properly.

"Insurers remain hopeful a practical, long-term and sustainable evidence-based solution can be found that does not unnecessarily interfere with the market for political reasons.

"Any solution must integrate urgent mitigation and building resilience measures that improve the capacity of cyclone-prone communities and individual property owners to withstand extreme weather. However, taxpayers from low-risk areas should not be used to subsidise premiums in high-risk areas based on a government decision.

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“The ICA is hopeful that the government will take into account the findings of various reviews including the Productivity Commission, which identified that significant investment in mitigation is the most appropriate way to reduce risk and thereby influence premiums in the long term.

“The industry also points out the government last year allocated \$12.5 million for development of a strata inspection scheme to help identify ways strata properties can be improved to resist cyclones, but little or no progress has been made.

“ICA member companies are also developing a range of innovative products to further broaden the policy options available to north Queensland residents, proving the market is responding to consumer needs.”

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