

Wednesday October 7, 2015

Insurers propose practical solution to resolve North Queensland premiums issue

Short-term targeted Federal Government subsidies that improve the cyclone resilience of older homes in North Queensland will be the most effective, low-cost and sustainable way of protecting communities while also reducing insurance premiums.

The subsidy proposal, developed by consultants Urbis for the Insurance Council of Australia (ICA), has been submitted to the government's Northern Australia Insurance Premiums Taskforce as a realistic alternative to much more expensive proposals under consideration.

ICA CEO Rob Whelan said: "Neither the mutual nor reinsurance options being actively examined by the Taskforce will reduce or prevent the property damage that cyclones cause – and that's the primary contributor to insurance premiums in North Queensland.

"The insurance industry is proposing **A Third Way** that would fix the bulk of the problem at a relatively low cost to the taxpayer. Fixing the roofs on pre-1981 homes will provide a lasting benefit to householders and communities, and prevent much of the emotional and financial heartache that is unfortunately felt by too many Australians in the north each year."

A Third Way proposes:

- The Federal Government will pay up to 75 per cent of the cost of retrofitting the roofs of low-income residents using an over-batten system, capped at \$11,250
- The scheme will run for just over seven years and cost a total of \$361.2 million
- Strata complexes can also take part
- Participating households will be eligible for a home insurance premium rebate of 20 per cent for up to two years while work is undertaken
- Lowering the risk of damage will also result in ongoing premium relief

Modelling for the ICA predicts more than 20,000 homes and 5000 strata units will qualify for the subsidy.

Mr Whelan said: "This is the most sensible and sustainable solution on the table. It will help those North Queensland households that have the most need of assistance. It will not require perpetual taxpayer funding or new taxes on all Australians that would last for generations and cost billions of dollars.

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“It meets the recommendations of the Productivity Commission’s Report into disaster relief funding, which concluded taxpayers are better off funding resilience and mitigation than paying tens of millions of dollars to repair communities after every catastrophe.

“And it will fulfil the Taskforce’s remit – to reduce premiums. Household premiums will fall, in many cases by hundreds or even thousands of dollars, when properties are more capable of withstanding the impact of the cyclones that strike northern Australia each year.”

Mr Whelan said research conducted by Crosby Textor found 80 per cent of North Queenslanders would be willing to take cyclone-proofing measures if it resulted in a reduced home insurance premium.

“A Third Way gives households in cyclone-prone regions the opportunity to protect their properties at a fraction of the regular price, helping to drive down premiums at the lowest cost to the taxpayer,” he said.

“However, the other options under active consideration – a mutual or a reinsurance pool arrangement – would require long-lasting government intervention in the private insurance market. These options would expose all taxpayers to potentially billions of dollars in costs without fixing the real problems. And these are unlikely to significantly lower premiums.”

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Editor’s Note:

ICA’s Taskforce Submission:

<http://www.insurancecouncil.com.au/assets/ICA%20Submission%20to%20the%20Northern%20Australia%20Insurance%20Premiums%20Taskforce%20Interim%20Report.pdf>

ICA’s A Third Way proposal:

<http://www.insurancecouncil.com.au/assets/Urbis%20ICA%20Cyclone%20Mitigation%20Assistance%20Policy.pdf>

Taskforce Interim Report:

<http://www.treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/Reviews%20and%20Inquiries/2015/NAIP%20Taskforce/Interim%20Report/Downloads/PDF/NAIP-interim-report.ashx>

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Australian Government Actuary reports:

http://www.aga.gov.au/publications/home_contents_nth_qld/downloads/Home-Contents-North-QLD.pdf

<http://www.aga.gov.au/publications/Strata Title Insurance Price Rises 2014/downloads/Strata QLD 2014.pdf>

<http://www.aga.gov.au/publications/Strata Title Insurance Price Rises/default.asp>

Previous ICA media releases:

Taskforce must focus on improving cyclone resilience

http://www.insurancecouncil.com.au/media_release/plain/322

ICA Response to the Financial System Inquiry

http://www.insurancecouncil.com.au/media_release/plain/285

Government actuary correctly diagnoses North Queensland's cyclone impact as driver of insurance prices

http://www.insurancecouncil.com.au/media_release/plain/284

ICA welcomes Productivity Commission disaster funding draft report

http://www.insurancecouncil.com.au/media_release/plain/271

Insurance Council welcomes Productivity Commission draft report on climate change adaptation

http://www.insurancecouncil.com.au/media_release/plain/37

A Third Way - Fact Sheet

Why does the ICA assess the mutual and reinsurance options being considered by the Taskforce as unlikely to fix the problem?

Home insurance premiums in Northern Australia have risen due to cyclone damage in recent years and the high risk of further cyclone losses.

The independent Australian Government Actuary found that insurers paid out \$1.40 for every \$1 in premium collected from North Queensland residents in the seven years leading up to 2013.

Both the mutual and reinsurance options require all Australian taxpayers to subsidise the premiums of residents in cyclone at-risk areas, with no certainty as to the final cost or duration of financial exposure. Natural disaster reinsurance pools in other countries have inevitably led to multi-billion-dollar government liabilities.

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These options are likely to create confusion and delays in processing claims for home owners who would require more than one home insurance policy in order to be covered for cyclone damage. Mitigating the risk by protecting homes is the only sustainable way to reduce premiums in the long term.

What about claims of market failure and a lack of competition?

This is not true. Despite significant losses insurers are incurring in North Queensland, the Taskforce has reported that more than a dozen insurers offer home insurance in the region. These insurers compete on price and product features.

Analysis by the ICA of 903,000 Queensland home insurance policies found less than 2 per cent of North Queensland strata unit owners pay more than \$3000 a year in home insurance, and less than 4 per cent of North Queensland home owners pay more than \$3000 for their home insurance premium. The level of non-insurance and underinsurance in North Queensland is no different to anywhere else in Australia.

How will A Third Way work?

Low-income households will receive 75 per cent of the cost of retro-fitting their roof with an over-batten system, up to a total of \$11,250.

Participants will be eligible for a 20 per cent rebate on their home insurance premiums for up to 24 months while waiting for their mitigation works to be completed.

In strata developments, 50 per cent of residents will need to meet the eligibility requirements for the complex to qualify.

The scheme is designed to run for seven years and two months with an estimated cost to the Australian Government of just over \$50 million a year – a total of \$361.2 million.

An appropriate accreditation system will be established to ensure only suitably qualified tradespeople are used to install the mitigation.

How will it bring down home insurance premiums?

Roof damage represents the greatest amount of both direct and collateral cyclone damage, with homes built prior to 1981 (when the Queensland Home Building Code was introduced) significantly more at risk.

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Under A Third Way, an insurance industry database will be established so mitigation can be reflected in home insurance premiums.

Once a retrofit has been completed on a property's roof, its premium will be adjusted down accordingly due to the lower risk it represents.

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