

30 April 2021

The Hon. Michael Sukkar MP
Assistant Treasurer
Minister for Housing
Minister for Homelessness, Social and Community Housing
Parliament House
CANBERRA ACT 2600

Dear Assistant Treasurer

FINAL REPORT OF THE NORTHERN AUSTRALIA INSURANCE INQUIRY

The Insurance Council of Australia (ICA) welcomes the Final Report of the Australian Competition and Consumer Commission's (ACCC) *Northern Australia Insurance Inquiry* (the Report).

We recognise that broadly the focus of the inquiry was competition within the insurance market, transparency of information provided to consumers, support for struggling consumers, and measures to address affordability, including risk mitigation. The Report's thirty-eight recommendations are directed at Government, industry and relevant stakeholders within the sector. Our response sets out our members' response to the Report and draws attention to complementary industry work already underway, particularly in relation to the new 2020 General Insurance Code of Practice (the Code) and climate action initiatives.

As the ICA has outlined in the past, improving the resilience of northern Australia's built environment remains the most effective way to ensure lasting affordability. We therefore welcome the ACCC's acknowledgement that "*reforms to land use planning and building standards may offer the best hope for achieving sustainable and equitable improvements to insurance affordability in northern Australia in the future,*"¹ as well as the recommendations related to building codes, land use planning and mitigation.

The insurance industry is a foundation stone of a successful economy and resilient communities. Insurance affordability and accessibility are central to building a resilient economy with all the benefits that entails. Our members recognise that having access to an appropriate level of insurance cover is a crucial tool to support our communities, including in Northern Australia, and national economic recovery following the COVID-19 pandemic.

The ICA supports the Report's core finding that high premiums in the northern Australia market largely reflect greater levels of natural peril risk. By increasing the size and frequency of claims, natural perils have raised costs and rendered this market unprofitable over a long period of time: "*over the 12-year period to 2018-19, insurers in northern Australia have experienced an estimated aggregate gross loss, across home, contents and strata insurance products of approximately \$856 million in real terms.*"² Improving insurance affordability within this market will require reductions in risk over time.

These challenges pose long-term questions for the insurance industry, policymakers and the Australian community. Industry is undertaking strategic work to help examine sustainability and

¹ ACCC, *Northern Australia Insurance Inquiry: Final Report*, 143

² ACCC, *Northern Australia Insurance Inquiry: Final Report*, x
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affordability of insurance markets over the longer-term, and we welcome the opportunity to collaborate with Government on these initiatives.

The ICA and its members also support the Report's recommendations directed at state governments, particularly Western Australia, the Northern Territory and Queensland, in relation to stamp duties. Abolishing stamp duties on insurance will have an immediate impact on affordability since residents in these states pay up to 10 per cent more on top of the premiums they pay to insure their home and principal financial asset.³ For example, Western Australia presently levies a stamp duty on gross premiums and CTP premiums of 10 per cent after GST – a 21 per cent impost on top of the premiums paid by householders.⁴

Finally, while the focus of the Report is northern Australia, several Recommendations relate to the broader insurance market. These recommendations are in relation to making it easier for customers to search for, and compare, insurance products; choose the right amount of cover and assistance for consumers experiencing hardship. While the ICA tentatively supports deeper examination of many of these broader Recommendations, it is critical that focus not be lost on the specific needs and challenges of the northern Australian market. Further, care should be taken to align with other ongoing initiatives and to minimise the risk that additional regulatory interventions will have unintended consequences in the broader market.

Finally, the ICA notes that there are some recommendations where industry has strong concerns and which are not supported. More detail is provided on these in **Attachment A**, but we would highlight the following recommendations in this regard:

- ***Rec 18.7: National home comparison website.***
- ***Rec 18.10: Disclosure where premium increases are capped.***
- ***Rec 20.2: Giving consumers more control over how home (building) claims are settled***

Further detail on the ICA and members' views on the various themes identified in the ACCC's Report are at **Attachment A** with a summary table provided at **Attachment B**. The ICA looks forward to working with Government on its consideration of the Recommendations. Please contact Aparna Reddy, General Manager, Policy – Regulatory Affairs (areddy@insurancecouncil.com.au, 02 9253 5176) if you have any questions in relation to our response.

Yours sincerely



Andrew Hall
Executive Director & CEO

³ ACCC, *Northern Australia Insurance Inquiry: Final Report*, 55

⁴ ACCC, *Northern Australia Insurance Inquiry: Final Report*, 55

Overview

The Insurance Council commends the ACCC for its work over three years on the northern Australia insurance inquiry and reiterates support for the Report's core finding that high premiums in the northern Australia market reflect greater levels of natural peril risk.

Notwithstanding the focus on northern Australia, the Report makes Recommendations about the broader functioning of insurance markets. These Recommendations would have a national impact and should be considered in light of the overall Australian insurance market. As noted above, it is critical not to lose sight of the specific issues impacting the northern Australia market. While the ICA is supportive (or supportive-in-principle or partially supportive) of many of these broader Recommendations, others require further consideration or are not supported by industry.

Our commentary in this Attachment focuses on each of the thematic areas outlined within the ACCC's Report, discussing specific recommendations where necessary. The thematic areas are:

- (A) Making it easier to search for, and compare, insurance products
- (B) Choosing the right amount of cover
- (C) Dealing with conflicts of interest
- (D) Addressing affordability concerns
- (E) Improving consumer's rights
- (F) Reducing risk and building better

Data Sources

Before commenting on the substance of the recommendations within the ACCC's Report, we wish to acknowledge that the final report is an analysis of extensive data, information and feedback from industry, residents, consumer groups and communities across northern Australia. Despite the limitations of some of its data sources, which the ACCC itself acknowledges, we support the view that non-insurance is a critical issue for those living in communities in northern Australia. The ACCC's data sources place non-insurance in northern Australia for homes (building) around 20 percent compared to 11 per cent in the rest of the country.⁵ The Insurance Council's policy-in-force data collection, due to occur later this year, will provide more data to test the precise level of insurance.

(A) Making it Easier to Search for, and Compare, Insurance Products

This thematic area (as well as the next two, *Choosing the Right Cover* and *Dealing with Conflicts of Interest*) includes several recommendations around disclosure requirements.

The ICA is supportive of many of these broader Recommendations. Many Recommendations warrant further consideration, both with respect to detailed implementation at an operational level and to avoid unintended consequences. Insurance remains a critical tool for Australians to manage risk, and insurance pricing remains a key signal of risk. Any additional regulatory

⁵ ACCC, *Northern Australia Insurance Inquiry: Final Report*, 264

interventions should be structured to minimise the distortionary effect on competition and market signals.

An illustrative example are the several recommendations that impose new requirements around consumer disclosures. Any additional such requirements should be considered within the overall context of information that consumers already receive. This should include consideration of the impact on consumer behaviour of any additional information and, to the extent possible, be based on behavioural research. This would permit a holistic consideration of how best to tailor information to enable customers to make informed decisions about their own insurance needs (noting that insurance is frequently tailored to an individual). Existing research shows that providing more information does not necessarily result in consumers making better decisions in relation to their insurance coverage.⁶

Other recommendations within this thematic area are not supported by industry, notably: the establishment of a national home insurance comparison website and disclosure where premium increases are capped.

National home insurance comparison website

The industry does not support the establishment of a national home insurance comparison website (Recommendation 18.7). There are already several private sector products in the market.

The ACCC Report itself provided evidence that, given the competitive market dynamics for insurance in northern Australia, price comparison websites would likely act to put **upward** (rather than downward) pressure on premiums. The insurance market in northern Australia is comprised of a small number of insurers who are each seeking to limit their exposure to natural perils through distribution and pricing strategies. A price comparison website, all else being equal, would encourage consumers towards insurance products at the lower end of the spectrum. In turn, this would place upward pressure on premiums as insurers sought to mitigate their risk exposure. The ACCC Report itself acknowledged this dynamic:⁷

- *...insurers try to limit their exposure in high risk areas (or their concentration risk) due to the losses that may be faced in the event of a catastrophe. ... As a result, in many high risk areas, insurers do not actively seek to increase their market share. They do so by either not writing new business in a certain location or of a certain risk profile, or by increasing premiums.*

As additional point is that comparison websites of this nature have been considered by previous inquiries over several years. The Financial System Inquiry discussed their potential use but did not make a positive recommendation for a government-established website.⁸ Likewise, the Government response to the 2017 Senate References Committee report, *Australia's General Insurance*, noted that the Report "provides limited evidence on the benefits that would be generated by a government-funded comparison website" and that "there are already a number of private sector companies providing these services".⁹

⁶ Australian Securities and Investments Commission (ASIC) and Dutch Authority for the Financial Markets, *Disclosure: Why it shouldn't be the default*, Insurance Council of Australia, Effective Disclosure Taskforce, *Too long; didn't read – Enhancing general insurance disclosure Report*

⁷ ACCC, *Northern Australia Insurance Inquiry: Final Report*, 126

⁸ Financial System Inquiry, *Final Report*, p230-31

⁹ Australian Government, *Response to the Senate Economics Committee Report: Australia's General Insurance Industry*, Response to Recommendation 8

Disclosure of capped premium increases

Finally, the industry does not support disclosure where premium increases are capped (Recommendation 18.10). This recommendation may have competition implications, given the commercially sensitive nature of insurer risk assessments and datasets. Policies are designed to be priced on an annual basis using dynamic information. Any estimate of future premium increases would be highly complex. It would be variable in nature, inconsistent between insurers and have the potential to provide confusing price signals to consumers. Subsequent changes to rating factors may make any advised premium increases incorrect, thus raising the unintended consequences of consumer decisions ultimately causing financial disadvantage or, alternatively, restricting the insurers ability to address new or unexpected changes to cost.

(B) Choosing the Right Amount of Cover

The ICA and its members are supportive of recommendations aimed at supporting consumers choose the right amount of cover.

Recommendation 18.4 states that insurers should estimate sum insured and supply this sum on the renewal notice. While the ICA and members support the objective of better informing consumers and reducing under-insurance, customers themselves are usually better placed to assess the value of their property. Therefore, insurers often provide customers the tools to do their own estimates, such as online calculators. In further recognition of the exigencies of estimating sum insured, insurers often have in place procedures such as policy uplifts.

There are also more fundamental questions around how this recommendation would function within the current advice regime. This matter is currently under consideration by ASIC as a part of CP332, *Promoting Access to Affordable Advice for Consumers*.

Furthermore, any changes to the disclosure regime would need to consider interactions with ongoing Treasury work on the standard cover review, including standardisation of definitions of prescribed events. Members continue to support industry consideration of standard cover under the auspices of a Treasury-led review given the potential competition implications.

(C) Dealing with Conflicts of Interest

The ICA and its members are of the view that Recommendations 19.2 (strata managers to be remunerated by body corporate only) and 19.3 (clear disclosure of products considered and remuneration) require further consideration. With respect to Recommendation 19.2, consideration should be given to other options that would meet the same aim, including any flow-on effects to strata manager remuneration. With respect to 19.3, brokers typically conduct a detailed review of an individual's circumstances before recommending a product and may be faced with placing risks that are not covered by mainstream products.

Recommendation 19.1 is to extend the ban on conflicted remuneration to insurance brokers. Given the unique nature of general insurance and the market structures within which it is sold, the industry does not support a ban on commission-based remuneration arrangements. Additionally, the Financial Services Royal Commission (FSRC) recommended (FSRC Recommendation 2.3) that there should be a review by Government in consultation with ASIC of the effectiveness of measures that have been implemented by the Government, regulators and financial services entities to improve the quality of financial advice. Among other things, this included (FSRC Recommendation 2.6) whether the exemptions to the ban on conflicted remuneration for general

insurance products remains justified. These issues are best considered within the context of that review.

(D) Addressing Affordability Concerns

The ICA supports Recommendation 3.1, to abolish stamp duty on home, contents and strata insurance products. Given the importance of affordability of insurance and the potential implications of non or underinsurance for the Government and the community, we believe it is time to act to remove specific imposts on insurance as has previously been recommended by this and other government inquiries. However, if this is not possible, then we are open to the possibility of amending the stamp duty basis away from retail premiums towards some other metric, such as the re-basing of stamp duty with reference to the sum insured value rather than premium value (Recommendation 3.2). Care would need to be taken to ensure that such a change does not create an additional incentive for residents to underinsure (or even not insure) their properties.

The Report canvasses other measures to improve affordability and availability in Chapter 8, including consideration of subsidies, reinsurance pools, government insurers, mitigation, among others. Ultimately, the ACCC has recommended direct subsidies (Recommendation 8.1).

As announced in February this year, the ICA has commissioned former insurance executive and regulator John Trowbridge to undertake a review of potential options to address insurance affordability and availability following a number of inquiries and reviews over the past decade that focussed on high-risk sectors and potential coverage gaps for some groups of consumers and businesses. The review includes a consideration of the ACCC's northern Australia Insurance Inquiry. While the work does explore proposals for a potential reinsurance pool for climate related risks in northern Australia, there are still many critical policy issues to be resolved.

The most important of these are:

- Who pays for the cost subsidy that would be required – taxpayers or other policyholders;
- The role of mitigation to reduce the risk of weather events' impacts and improve the resilience of exposed communities;
- How do we stop enabling new development that is not fit-for-purpose in areas of high natural peril risk; and
- The removal of state taxes and duties that only exacerbate affordability issues.

Understandably, insurers have a range of views on this issue but share a commitment to addressing insurance affordability and availability over the short and long-term and will continue to engage with affected communities, stakeholders and governments on this important debate.

(E) Improving Consumer's Rights

The Insurance Council has developed the General Insurance Code of Practice (the Code) which requires insurers, and other industry participants, who have adopted the Code to provide services to their customers in an open, fair and honest way. The Code also gives customers specific rights in a range of situations, such as when they are buying insurance, making a claim or experiencing financial difficulty.

The Insurance Council intends to apply for ASIC approval of the Code and is awaiting ASIC's regulatory guidance on approval of financial sector codes (RG 183) to be updated for enforceable code provisions, which is expected to take place by the end of this year.

In relation to the recommendation for Centrepay to be offered by insurers as a payment option (Recommendation 15.2), members note that Centrepay poses significant challenges and is not considered the most effective way to provide customers with flexible payment options. It is our view that Centrepay requires a program of modernisation. In the meantime, insurers continue to explore alternative payment solutions to Centrepay so insurance may be as broadly accessible as possible to all members of the Australian community.

Finally, the ICA and its members do not support Recommendation 20.2, which states that “consumers should be provided with the right to choose whether their home building is settled through a cash settlement or with a repair/rebuild managed by the insurer”.

As a general principle, we are of the view it is more appropriate to provide a customer with key information to assist with understanding how a cash settlement works, if one is offered, rather than giving the right to choose the method of settlement.

Insurers generally prefer repairs/rebuilds over cash settlements for several reasons. For example, the customer will receive a lifetime guarantee on the workmanship of repairs from their insurer and will not need to appoint a building manager or manage the entire repair process themselves (including delays, issues, quality and cost); and customers will benefit from being able to rely on the insurer’s network of qualified building and repair professionals. There will always be situations when a cash settlement may be the only feasible option to settle the claim, for example if there are no repair or rebuild options available for a customer to choose from due to the area rezoned or unsafe for development.

(F) Reducing Risk and Building Better

The ICA welcomes the Report’s focus on improving resilience in the built environment in northern Australia. The ICA has previously stated that this is the most promising path towards a resilient northern Australia insurance market, and we therefore welcome this focus. Our comments on this thematic area outline ongoing industry work and draw attention to complementary initiatives.

The insurance industry via the ICA regularly partners with local government and other stakeholders to progress work on building resilience.¹⁰ For example, the ICA is currently working with Queensland Fire and Emergency Services and Geoscience Australia on a severe wind hazard assessment project. This project will include an assessment of future cyclone risk and damage/loss to residential homes within six local government areas in Queensland and will make recommendations about optimal retrofits and how to fund them. Other examples of work being undertaken by the ICA include:

- ***Building Resilience Rating Tool:*** Developed by the ICA over the course of the last decade as part of a broad set of initiatives to disclose risk information to the customer about their houses and encourage greater levels of due diligence during house transactions.
- ***Where we Build, What we Build:*** This project delivered a specification for a “Climate Ready Home” and aims to encourage building or retrofitting of homes that are climate-ready, by demonstrating that the benefits of doing so outweigh the costs. This was in partnership with

¹⁰ Insurance Council of Australia, *Climate Change Action Committee*, www.ClimateRisk.insure

SA Government and local governments who are now implementing this as a beyond compliance standard.

In November 2020, the ICA and Master Builders Association (MBA) formed a working group to address the issue of resilience in the built environment and have convened two “Building Stronger Homes” Roundtables so far in 2021. These roundtables bring together builders, insurers and government to work together, harnessing industry insights from both insurance data and builders experience to help map actions that can improve the resilience and insurability of existing and future Australian homes. Further Building Stronger Homes Roundtables will be held in the first half of 2021, with one recently held on 21 April.

In line with our support for high quality data to improve property owners understanding of the risks they face and their options to mitigate them, our members support recommendation 16.1 which is for the North Queensland Strata Title Inspection Program to be extended beyond its current end date of 30 June 2021.

The ICA welcomes and strongly supports the proposal to explicitly include property protection as an objective in the National Construction Code (NCC) and reforms to land use planning.

In addition to the NCC, a greater emphasis needs to be placed on addressing the resilience of existing housing stock. This can be achieved through mitigation and large-scale retrofitting programs. Governments need to invest more in mitigation measures that have proven not only to protect communities but also to reduce the cost of premiums. For example, the 2015 construction of a \$15 million flood levee in Roma protected around 500 homes and businesses and also reduced premiums by an average of 34 per cent, with some premiums cut by as much as 75 per cent. The Queensland Household Resilience Program (HRP) provides funding to help eligible homeowners in coastal parts of Queensland improve the resilience of their homes against cyclones.¹¹ Such programs could be significantly expanded so more residents can benefit since the program has resulted in average insurance premium reductions of 7.8 per cent with some reductions of up to 25 per cent. Expansion of the HRP would complement the ACCC’s recommendation 16.1, to extend and expand the North Queensland Title Inspection Program.

Several recommendations under this thematic area are problematic since, while our members are supportive of the intent, they could have a potential adverse effect on competition and the marketplace, as well as prove difficult to implement. For example, recommendations 21.1 and 21.2 support insurers providing information to individuals on how discounts may be applied, premiums reduced or risk ratings adjusted based on mitigation measures undertaken. While insurers could provide general guidance on the types of mitigation measures that may result in a reduction in premium for specific classes and archetypes of property, mitigation undertaken on one home may have a negligible impact on the resilience of another. Therefore, given the need for individual assessments of a property and the mitigation works undertaken, a regulatory solution to mandate and standardise how insurers should take into account mitigation works is unworkable, with a potential impact on competition within the market.

¹¹ Queensland Government, *Household Resilience Program*, www.qld.gov.au/housing/buying-owning-home/financial-help-concessions/household-resilience-program

Making it Easier to Search for, and Compare, Insurance Products			
Support	Support-in-Principle or with Modifications	Continuing Consideration	Do Not Support
17.1 (Standardise definitions of prescribed events) 18.1 (Prominently publish Product Disclosure Statements and Key Facts Sheets with product offerings)	7.1 (Insurers to report their brands and where they are writing new business) 15.1 (Better disclosure of instalment surcharge costs) 17.2 (Review and mandate standard cover)	18.6 (Disclose premium impacts of optional inclusions and exclusions) 18.8 (Renewal notices should give 28 days' notice) 18.9 (Disclose the premium, sum insured and excess on a renewal notice)	18.2 (Link to Money Smart on new insurance quotes) 18.7 (National home insurance comparison website) 18.10 (Disclosure where premium increases are capped)

Choosing the Right Amount of Cover			
Support	Support-in-Principle or with Modifications	Continuing Consideration	Do Not Support
18.3 (Better understand information that falls within 'general financial advice') 18.5 (Disclosure costs that count towards 'sum insured')		18.4 (Insurers should estimate a sum insured for customers)	

Dealing with Conflicts of Interest			
Support	Support-in-Principle or with Modifications	Continuing Consideration	Do Not Support
	19.2 (Strata managers to be remunerated by body corporate only) 19.3 (Clear disclosure of products considered and remuneration.		19.1 (Extend the ban on conflicted remuneration to insurance brokers)

Addressing Affordability Concerns			
Support	Support-in-Principle or with Modifications	Continuing Consideration	Do Not Support
3.1 (Abolish stamp duty on home, contents and strata insurance products) 3.2 (Re-base stamp duty; use stamp duty revenue for affordability and mitigation)		8.1 (If governments want to provide immediate relief to consumers facing acute affordability pressures, they should consider direct subsidies over other measures)	

Improving Consumer's Rights			
Support	Partially Support	Continuing Consideration	Do Not Support
20.3 (ASIC approval for the General Insurance Code of Practice)	20.1 (Better information for consumers lodging a claim)	15.3 (Help for customers experiencing premium payment difficulties)	15.2 (Insurers should be required to offer Centrepay) 18.12 (Requesting personal information held by insurers) 20.2 (Giving consumers more control over how home (building) claims are settled)

Reducing Risk and Building Better			
Support	Support-in-Principle or with Modifications	Continuing Consideration	Do Not Support
<p>13.1 (Expand the remit of the Australian Building Codes Board to include property protection)</p> <p>13.2 (Developing voluntary standards for more resilient buildings)</p> <p>14.1 (Consideration of insurance affordability and availability under existing)</p> <p>14.2 (Better communication between insurers and planners)</p> <p>16.1 (Extend and expand the North Queensland Strata Title Inspection Program)</p> <p>21.4 (Building code changes to better protect interiors and contents)</p>	<p>13.3 (Increasing consumer awareness of the insurance implications of home design choices)</p> <p>13.4 (Building resilience register)</p> <p>21.3 (Public mitigation works and expected premium reductions)</p> <p>18.11 (Consider likely insurance costs before purchasing real estate)</p>		<p>21.1 (Clearly stated mitigation discounts)</p> <p>21.2 (Information on mitigation works that could reduce premiums)</p>

[ENDS]