Northern Australia Insurance Premiums Taskforce – Interim Report

Suncorp General Insurance Submission

One Company
Many Brands

SUNCORP GROUP

Executive Summary

Cyclones are a fact of life in northern Australia.

Since 2005, 17 severe cyclones have made landfall in northern Australia, and the risk to communities is only increasing as the region becomes more developed.

Insurance losses from cyclones are modelled to average $632 million per year. In any given year there is a 1 in 10 risk that cyclones could cost $1.4 billion and a 1 in 100 risk they could cost as much as $7 billion. Cyclones also cause significant social and economic losses beyond the insurance market, and the loss or damage of individuals' most treasured and irreplaceable possessions.

Insurance premiums reflect the high risk of financial loss, but they are only a symptom of a bigger problem. The real issue is why we allow cyclone losses, both economic and social, to continue growing.

Homes in northern Australia are simply not built to be cyclone resilient. Building codes focus on saving lives rather than minimising damage, and older properties may not even meet this minimum standard. Continued development in high risk areas also contributes to increasing damage bills.

Proposed market interventions such as introducing a pool or mutual do nothing to address risk or reduce the devastating impact of cyclones on northern communities.

The solution

We know what needs to be done to increase resilience and reduce cyclone risk.

Retrofitting existing buildings, strengthening standards for new buildings and better planning controls for developments in high risk areas are all part of the solution.

Suncorp is already acting to address risk and make insurance more affordable through our *Protecting the North* initiatives, which include:

- a process to comprehensively capture and report self-mitigation work already undertaken on older homes which could deliver savings of up to 20%;
- working with experts to design a cost effective retrofit program to strengthen older north Queensland homes against cyclone impacts;
- a new direct strata insurance product delivering savings of around 20%; and,
- a completely new insurance product tailored to low income earners, providing contents cover from just $4 a week.

The facts

- **Improving cyclone resilience is the only way to reduce risk and protect communities.** Retrofits save homeowners and the economy up to $13 for every dollar invested, and significantly reduce the amount of damage caused when a cyclone hits. Some options pay for themselves after one Yasi-like cyclone. Retrofitting homes also creates local jobs and boosts the economy.

- **There is no insurance market failure in northern Australia.** Multiple government reviews have concluded that insurance prices are reflective of cyclone risk and there is no evidence of market failure. Right now, there are as many insurers operating in Cairns as there are in Sydney. If government wants to increase competition, risk reduction would encourage more insurers to enter the market.

- **There is no widespread insurance affordability problem.** Anecdotal accounts do not reflect the experience of residents in the broader insurance market. In north Queensland, 97% of home building premiums are below $3000, renewal rates are consistent with other locations and excesses are not being significantly increased.

- **Strata insurance is cheaper, per unit, than home building insurance.** Strata insurance in northern Australia is more expensive than other locations, reflecting the level of cyclone risk. However, on average, it is cheaper than home building insurance when similar risks are compared on a per-unit basis.

- **Government intervention through a pool or mutual won't work.** It will be expensive, and it will leave communities vulnerable to increasing risk. International experience shows that insurance pools create a moral hazard that encourages further risky development, and expose governments and taxpayers to significant liabilities. The US flood pool has grown from covering 1.4 million homes in 1978 to 5.5 million in 2013 and currently holds USD$23 billion of debt. Closer to home, the Christchurch Earthquake exposed the New Zealand Government to NZD$16 billion of losses via the Earthquake Commission.

Outcomes

It is the role of government to protect communities, not to intervene in functioning markets. Government cannot commit to economic development in northern Australia while allowing cyclone risk to grow unchecked.

Suncorp calls on government to:

- work with insurers, industry and communities to develop a program of work that will improve the cyclone resilience of homes in northern Australia; and,
- commit to an ongoing investment in mitigation and resilience to fund the implementation of these measures.

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About the Suncorp Group

Suncorp Group is one of the largest insurers in Australia offering a range of personal and commercial insurance products, protecting the financial wellbeing of millions of Australians. As a Group, Suncorp has nearly 15,000 employees and more than nine million customers across the country. The General Insurance business alone paid out $5.5 billion in insurance claims in 2014-15, averaging more than $15 million each day.

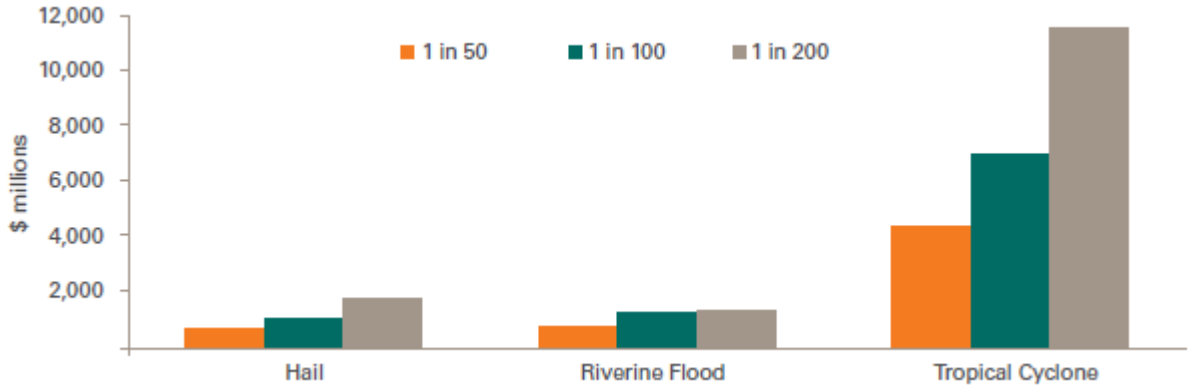
Suncorp has been protecting the Queensland way of life for almost 100 years, and has stood by north Queenslanders during some of their darkest moments including Tropical Cyclone Larry in 2006, Tropical Cyclone Yasi in 2011, and most recently, Tropical Cyclone Marcia in 2015.

Suncorp offers a range of personal insurance products including car, home and contents, travel, boat, motorcycle and caravan insurance. The key to Suncorp's success in personal insurance is its portfolio of well-known brands. These include Suncorp Insurance, Apia, AAMI, GIO, Vero, Shannons, Just Car Insurance, Insure My Ride, Bingle, Terri Scheer, CIL Insurance, Resilium and Essentials by AAI. These brands have built reputations for insurance innovation, outstanding customer service and trustworthy products.

Suncorp also offers commercial insurance products that serve the needs of a wide range of business customers, from small business operators to global companies. The commercial insurance portfolio of brands includes GIO, AAMI, Suncorp Insurance, Vero and Resilium. Suncorp is also Australia's largest personal injury insurer offering workers compensation and CTP insurance, which serve the needs of governments, employers and the community.

Cyclone risk in northern Australia

Many areas of Australia are at high risk of natural hazards. However, northern Australia's cyclone risk is unique. Cyclone events result in significantly higher losses than other natural hazards, including hail and riverine flood (figure 1). Many areas in northern Australia are susceptible to multiple natural hazards, adding to their risk exposure.



Source: Urbis

FIGURE 1: Estimated losses for insured residential property from natural hazards, Queensland

Insurance Council of Australia (ICA) Disaster Statistics show $3.4 billion in cyclone and flood disaster insurance costs in northern Australia since 2006. For much of this period, insurers were losing money in the region – the Australian Government Actuary (AGA) found insurers in north Queensland paid $1.40 in claims for every dollar collected over an eight year period.[1]

Insurance premiums should reflect risk, and Suncorp has priced policies across Australia in line with this philosophy. We do not believe people in lower risk areas should help to pay for the cost of insurance for those at high risk.

[1] Australian Government Actuary, *Report on Home and Contents Insurance Prices in North Queensland, 2014, p13*

The true cost of cyclone risk

High premiums are not the only consequence of unaddressed risk.

In addition to the cost of repairing building damage, cyclones also have a significant social and economic impact on communities.

Risk Frontiers estimates the social costs of disasters to be between 20-200% of insured property damage. In the case of Cyclone Yasi in 2011, these costs could have amounted to more than more than $1.5 billion. This includes impacts such as:

- death and injuries;
- loss of leisure time;
- higher crime rates;
- dislocation of families;
- community upheaval and disruption to local infrastructure; and,
- business interruption.[2]

The World Health Organisation also estimates that severe mental health disorders across the population can increase by around one percentage point following a large natural disaster.[3]

The risk problem faced by residents of northern Australia is far broader than just insurance premiums. Addressing only the financial impact of high premiums does nothing to reduce the devastating impact of natural disasters on individuals and communities.

[2] Risk Frontiers, *Application of insurance modelling tools to climate change adaptation decision making relating to the built environment*, 2015
[3] Deloitte Access Economics, *Four years on: Insurance and the Canterbury Earthquakes*, 2015

The value of risk reduction

Suncorp agrees with the Taskforce that "mitigation should be an important component of any effort to reduce insurance premiums."[4] We have long advocated for governments to focus natural disaster funding on preventative measures to better manage risk.

The Productivity Commission's Natural Disaster Funding Final Report supports our position, finding a significant over-investment in disaster recovery and under-investment in mitigation, with only 3% of disaster funding being directed to prevention and mitigation activities.

The Financial Systems Inquiry agreed, stating:

> The Inquiry believes this issue should be primarily handled by risk mitigation efforts rather than direct government intervention, which risks distorting price systems.[5]

An effective mitigation investment will lead to:

- more efficient and sustainable premium reductions compared to market intervention;
- community and social benefits due to a lower level of damage and disruption after a cyclone; and,
- strong economic benefits from the creation of a retrofit market, including job creation.

KPMG modelling shows that, over 10 years, a $250 million annual investment in disaster mitigation could result in a $6.5 billion boost to GDP, while a pool approach reduces GDP over the same period (Figure 2).

Creating demand for mitigation also has flow-on benefits. Urbis identified that an incentive program creating a market for building retrofits is likely to boost innovation and drive down costs over time:

> Experience curves for other products, notably solar panels, but also energy-efficiency innovations in the building sector more generally, demonstrate the potential for mitigation options to improve pricing outcomes over time. For example, capital expenses for solar are forecast to fall in Australia by over 40%, between 2010 and 2030, as the use of solar becomes more widespread (Hearps & McConnell, 2011).[6]

[4] The Australian Government the Treasury, *Northern Australia Insurance Premiums Taskforce Interim Report*, 2015, p41
[5] *Financial System Inquiry: Final Report*, p 227
[6] Urbis, *Protecting the North: the benefits of cyclone mitigation,* 2015, piii

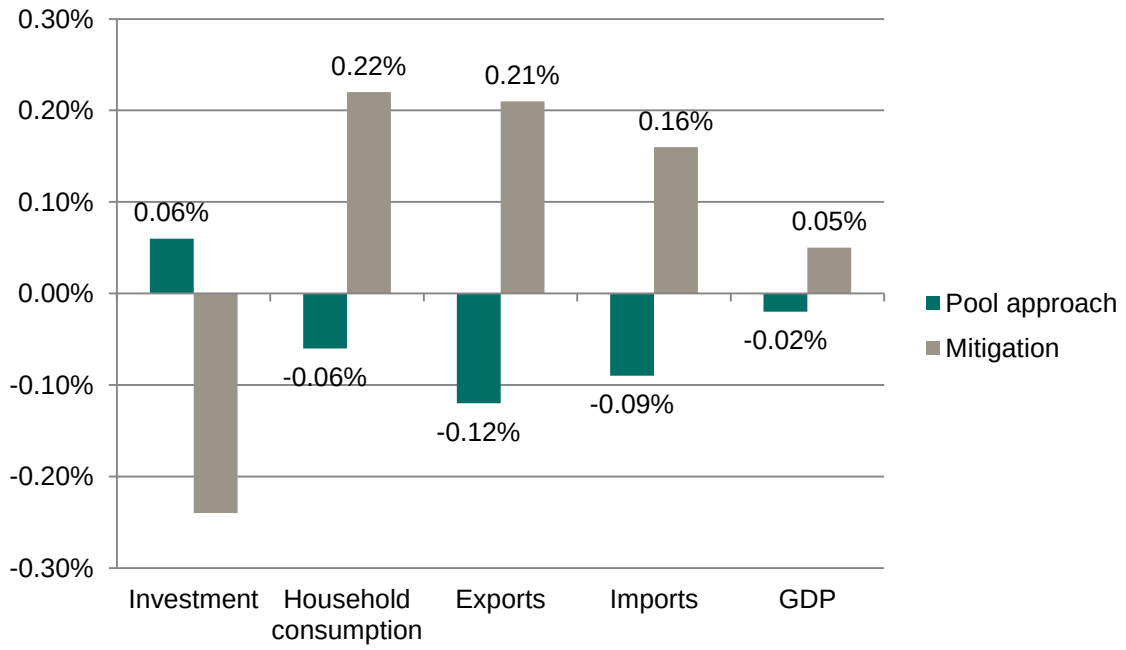
Preventing damage makes sense

The current approach to natural disaster funding is weighted toward disaster recovery funding, with limited levels of investment in preventative disaster mitigation. This results in the inefficient practice of minimising costs upfront only to be faced with significant recovery bills following each disaster.

This was recognised by the National Commission of Audit which characterised recovery funding as a "large and volatile expenditure [which] poses significant and ongoing risks to the Budget."[7]

Current arrangements also lead to the highly inefficient practice of rebuilding assets and infrastructure to the original standard, maintaining high levels of risk and allowing the benefit of recovery investment to be wiped out by subsequent disasters.

Any approach to reducing premiums that does not focus on mitigation will fail to reduce the cost of cyclone recovery and lock in a cycle of high premiums and government subsidies.



Source: KPMG

FIGURE 2: Key modelling results - impact in the year of the event (or every ten years) total accumulated cost of the pool/mitigation over ten years and the total cost of one event (deviation from baseline, percentage)

[7] National Commission of Audit, *Towards Responsible Government,* Phase One Report, February 2014, pg. 187.

The importance of resilience

We know improving the resilience of homes reduces cyclone damage.

In 2006, Cyclone Larry damaged a number of homes in Innisfail, which were repaired or rebuilt subject to the new stronger building code. In 2011, when Cyclone Yasi again impacted Innisfail the rebuilt areas saw average repair costs of $56,000. This was almost half of the $110,000 repair costs in nearby Tully and Cardwell that were largely built prior to the new cyclone building standards.

The problem with current building standards, as noted in the interim report, is that they only apply to new homes. Unless an older building has had significant repairs or upgrades, it is unlikely to meet current codes. James Cook University (JCU) analysis of Suncorp claims data showed that properties built in north Queensland prior to the introduction of modern building codes were more likely to suffer structural damage in the event of a cyclone.[8]

Even though major structural failures represent a minority of claims, they are a major driver of claims cost. For example, less than 3% of Suncorp claims for Cyclone Yasi were for more than 50% of a policy's sum insured. These claims accounted for 27% of the total claims cost.[9]

Upgrading older homes to reduce the risk of structural damage due to a cyclone could significantly reduce the cost of claims and generate savings that can be passed through to policyholders.

However, building codes are only a minimum standard, and are designed primarily to protect lives and ensure structural integrity. Homes that meet this standard still have a large scope for increasing resilience and reducing the risk of loss.

For example, newer buildings are prone to damage from wind and water ingress through openings. This is because, while modern building codes have ensured the structure of the building is more resistant to cyclones, there is no requirement for openings to meet the same standards. If not properly protected, these become the weakest points in the building. Once an opening is breached, wind and water can enter the home, causing damage to interiors and contents and driving up claims costs.

[8] Cyclone Testing Station, James Cook University, *Insurance Claims Data Analysis for Cyclones Yasi and Larry*, 2015, p21
[9] Cyclone Testing Station, James Cook University, *Insurance Claims Data Analysis for Cyclones Yasi and Larry*, 2015, p21

Resilience retrofits

Retrofit opportunities identified by JCU to make homes more cyclone resilient include:

- roofing upgrades for older buildings, to reduce the likelihood of structural damage;
- protection of all building openings, to reduce damage caused by wind and water ingress; and,
- a community awareness campaign, designed to ensure residents are better prepared for cyclone events and reducing the incidence of small claims.

Further to the research conducted by JCU, Suncorp commissioned Urbis to conduct a cost-benefit analysis of several mitigation options.

A range of mitigation options showed a positive benefit-cost ratio (BCR), shown in Figure 3. Overall, every dollar spent on low-cost retrofits will provide a return of at least $3. Some options, including an improved community awareness campaign to lower the incidence of small, preventable claims, would pay for themselves after just one Yasi-like cyclone.

Mitigation option	Cost per household	Total benefit per household**	BCR	Payback period***
Community awareness campaign*	$55 – $136	$440 – $820	3.2 – 14.8	<1 – 6 years
Opening protection – self-installed (Low cost scenario)	$1,660	$1,990 – $6,400	1.2 – 3.9	4 – 21 years
Roofing option – strapping only (Low cost scenario)	$3,000	$12,900 – $38,800	4.3 – 12.9	2 – 4 years
Roofing option – over-batten system (Medium cost scenario)	$12,000	$13,500 – $39,400	1.1 – 3.3	5 – 37 years

NB: Values taken as an average over House Type A and House Type B, except for community awareness campaign, which is an average over all house types. Total Benefit does not discount the cost of mitigation. The lower range of values are based on conservative wind speeds and are modelled over only 39 postcodes. *Government funded campaign, applied per household. **NPV over 50 years. ***Payback period refers to the number of years required for the value of benefit to outweigh cost of mitigation option – applied across all parties, not just the consumer. Source: Urbis modelling, JCU, Suncorp Group

FIGURE 3: Benefit cost ratios for mitigation

Key highlights of the JCU and Urbis research, as well as the full reports, can be found in the appendices to this submission.

Protecting the North

Build to Last

Through landmark research with James Cook University and Urbis, Suncorp claims data is being used to help build resilient homes in North Queensland.

Average annual cost of cyclone damage

per year	1 in 10 chance	1 in 100 chance
632m	1.35b	7b

In North Queensland, $1.40 in claims has been paid for every $1 in premiums.

$1 → $3

For every dollar spent on low-cost retrofits, the community saves at least $3.

$1 → $12

Installing strapping on replaced roofs could return up to $12 for every dollar spent.

Nearly 9/10

Cyclone Yasi claims were for minor damage – many of them were preventable.

A new approach to community awareness campaigns will pay for itself after just one Yasi-like cyclone.

20% potential savings on premiums for retrofitted homes

50% potential rebate*

Roof strapping

$1 → $12

Save up to $12 for every $1 spent.

50% potential rebate*

DIY window coverings and roller door protection

$1 → $4

Save up to $4 for every $1 spent.

Roller door protection

Spending $300 on reinforcement could prevent $10,000 worth of damage in the event of a cyclone.

$1 → $14

A campaign to prepare for cyclones by securing garden sheds, removing shade sails, and bringing outdoor furniture inside delivers up to $14 in savings for every $1 invested.

Based on analysis by Suncorp, James Cook University and Urbis. For more information for source material and further information, see www.suncorpgroup.com.au/media/public-submissions

* Potential rebate saving on retrofits, contingent on government support.

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Incentives for mitigation

Strengthening homes makes financial sense, but there are still barriers to uptake. A range of additional incentives will help drive the creation of a market for mitigation.

- **Reduced upfront costs for homeowners.** While there is a strong return on investment for activities such as the installation of roof strapping, these benefits may not be fully realised for many years if a damaging cyclone does not occur in the area. To overcome this barrier, Suncorp advocates for government investment in a large-scale retrofit subsidy program as an alternative to a pool or mutual.

- **Insurance premium discounts.** Suncorp has already committed to reducing premiums by up to 20% where homeowners have undertaken mitigation work. We have a strong track record in delivering savings where mitigation reduces risk – recently, creation of flood levees in Roma and Charleville lead to immediate and significant premium reductions for Suncorp customers. Lower risk will also lead to even more competition in the region.

- **Less intrusive retrofits.** Resilience solutions such as over-battens, while effective, can be unsightly. As part of our ongoing research partnership, Suncorp is working with JCU to foster development of innovative solutions that are less visually intrusive. Smarter, innovative, attractive solutions have never been encouraged because there has never been a market or price signal to spur better design.

Existing programs

Government sponsored mitigation programs have been highly successful internationally, and a similar model should be considered for northern Australia. The *My Safe Florida Home* program commenced in 2007, and undertook inspections on 400,000 single-family residential properties. Grants were provided to 35,000 applicants. The popular program averaged over 5000 sign-ups per day, with participating homeowners receiving a free wind inspection report with advice on how their home could be protected from storms and how much they could save on insurance premiums.

The insurance market

To date, the affordability debate has been characterised by anecdotal accounts of premium increases, and misleading data comparisons used to portray market failure. Many cases reported in the media describe outlier cases, which do not reflect the experience of residents in the broader insurance market.

The term “market failure” has also been used inappropriately to describe the situation in northern Australia. In order for the insurance market to be failing, there would need to be insufficient cover available to meet demand. This is not the case.

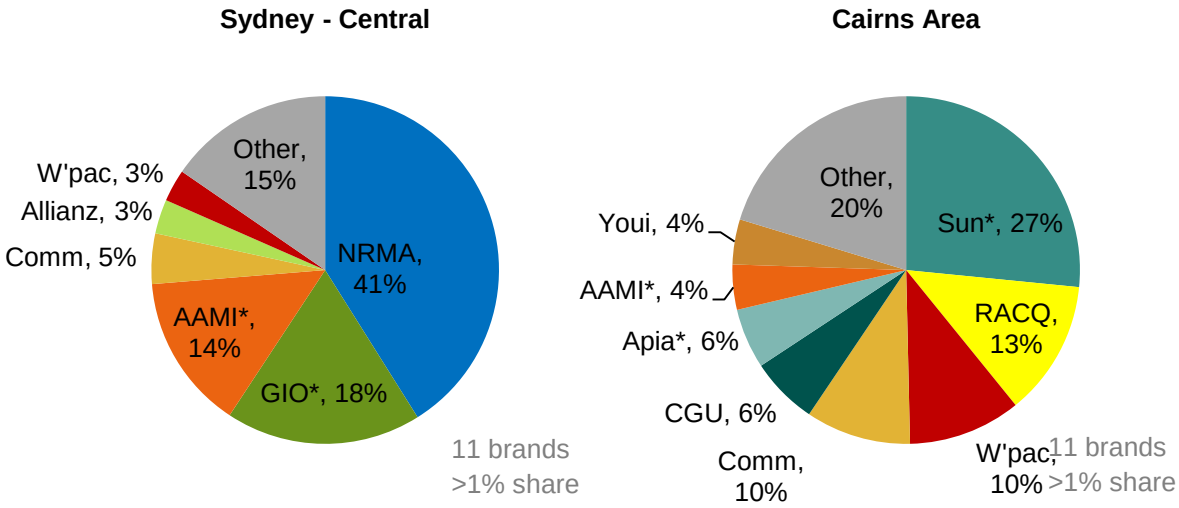
Previous inquiries, including those undertaken by the Productivity Commission, the AGA and the Financial System Inquiry (FSI), have concluded there is no market failure contributing to premiums in northern Australia.

Recent analysis from Suncorp and the ICA also shows that the insurance market is functioning:

- average home premiums in north Queensland are approximately 1.5 times those in the rest of Queensland, and twice those in Sydney and Melbourne – reflecting the higher level of risk carried by north Queensland communities;[10]
- the average is being pushed up by a small number of very high premiums – 97% of cyclone exposed policyholders pay $3000 or less for home building insurance;[11]
- there is no trend in north Queensland towards non-insurance or lowing of overall sum insured, reflecting that the market continues to work well;[12]
- there is no trend toward high excesses in high risk locations, with 92.5% of policyholders choosing an excess of $1000 or less, compared to 93% across Queensland.[13]
- Suncorp’s 91% renewal rate in north Queensland is consistently higher than in NSW (88%);[14] showing there is little evidence of customers dropping out of the market;
- ICA polling confirms that close to 9 out of 10 homeowners (88%) in north Queensland hold both building and contents insurance – this is consistent with national figures and demonstrates that cost is not reducing insurance levels;[15] and,

[10] Suncorp policy data – see Figure 6
[11] Based on ICA analysis of member policy data
[12] Based on ICA analysis of member policy data
[13] Based on ICA analysis of member policy data
[14] Suncorp policy data

- there is a similar level of competition across the home insurance markets in northern and southern Australia – as an indicative comparison, Figure 4 shows market share data across Sydney and Cairns.



Based on Roy Morgan Home Insurance market share (policies) analysis in Cairns (n=309) and Sydney (n=527). Population aged 18+, six month average at Jun 15.

FIGURE 4: Insurance market competition in Sydney and Cairns.

This data supports the taskforce view that:

> There does not seem strong support for the idea that insurance premiums are causing a greater number of people in northern Australia to non-insure compared to the southern regions.[16]

[15] Based on ICA polling data
[16] *Northern Australia Insurance Premiums Taskforce Interim Report,* 2015, p17

Availability of cover

Suncorp offers a range of insurance products throughout northern Australia as shown in Figure 5 below.

Area	Home**	Direct Strata	Broker Strata
North Queensland - general* (including the coastline up to 500m)	Suncorp, AAMI, Apia, Shannons, Vero, Resilium, Vero Corporate Partners	Suncorp, AAMI	Resilium, Longitude (underwritten by Vero)
Offshore Islands - QLD	Some Islands (postcodes) are acceptable with an excess and some are not accepted.	Some Islands (postcodes) are acceptable with an excess and some are not accepted.	Some Islands (postcodes) are acceptable with an excess and some are not accepted.
NT - general*	Suncorp, AAMI, Apia, Shannons, GIO, Vero, Resilium, Vero Corporate Partners	Suncorp, AAMI, GIO	Resilium, Longitude (underwritten by Vero)
WA - general*	Suncorp, AAMI, Apia, Shannons, GIO, Vero, Resilium, Vero Corporate Partners	Suncorp, AAMI, GIO	Resilium, Longitude (underwritten by Vero)
Offshore island territories (Christmas Island/Norfolk)	Norfolk Island only, through Vero broker only.	Nil	Nil

*some islands/postcodes are not accepted, or have an applicable excess; **includes broker and corporate partner offerings

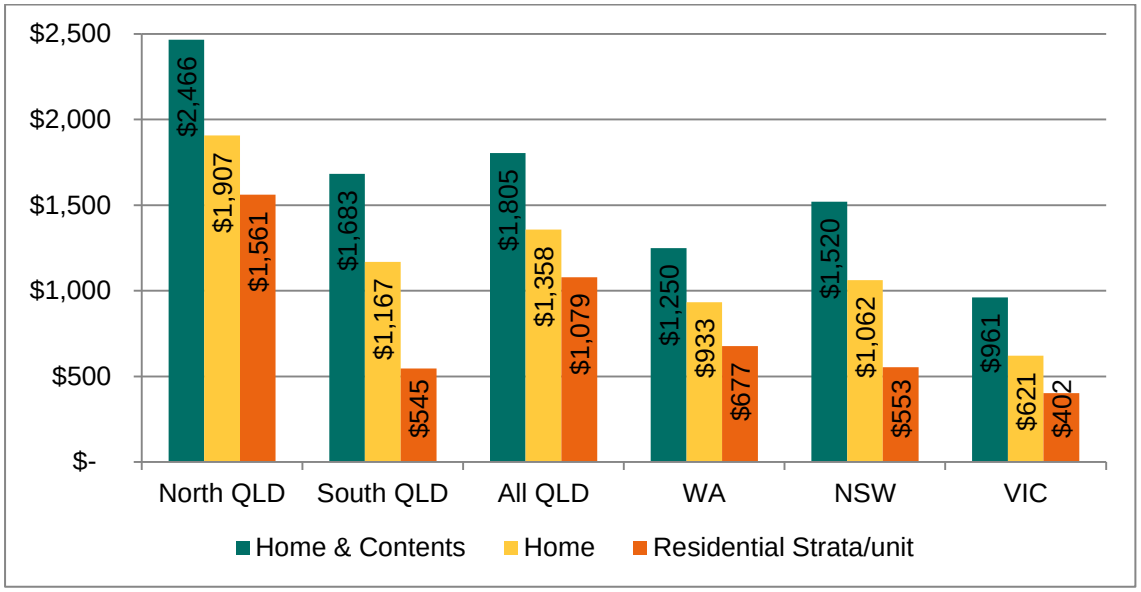
FIGURE 5: Coverage across northern Australia for Suncorp brands

Clarifying strata insurance

Suncorp is concerned that strata insurance premiums are being quoted out of context in discussions around insurance affordability. Strata premiums are not directly comparable unless broken down to a per-unit rate, because:

- strata premiums are split between unit owners, so one owner is not paying the entire premium – for instance, a 20-unit policy with a $40,000 annual premium equates to $2000 per unit; and,
- there is significantly more variation between different strata developments than between different free-standing homes – for example, it is difficult to compare the risk faced by a duplex to that of a large apartment complex with features such as basement car parking, pools and elevators.

When analysed on a comparable per-unit basis, Suncorp data shows strata insurance premiums are cheaper than home building insurance policies.



Premiums shown include taxes. Strata bar consists of intermediated policies up to 12 units for comparable residential risks. Source: Suncorp policy data

FIGURE 6: Average retail premium comparison.

It is also important to note that excess levels for strata policies tend to be set at a very low level. Suncorp has higher voluntary excess limits for brokered strata policies.

Housing and rental markets

The interim report referred to submissions to both the Taskforce and the Joint Select Committee Inquiry into the Development of Northern Australia, stating that insurance prices are forcing individuals to sell their properties, and making it harder to sell properties currently on the market.

However, at this stage there does not appear to be any evidence that insurance prices have had a significant impact on property market conditions in northern Australia. Taking into account both housing prices and income, northern Australia has some of the most affordable housing in the nation – for example:

- Townsville, Rockhampton and Mackay are among the top 10 most affordable localities in Australia; and,
- the median multiple (a housing affordability rating that divides the median house price by the median annual household income) for Townsville is 4.3, compared to Brisbane at 6.0, Melbourne at 8.7 and Sydney at 9.8.[17] This means that, relative to income, houses are more than twice as expensive in Sydney and Melbourne than Townsville.

[17] *11th Annual Demographia International Housing Affordability Survey: 2015,* available: http://www.demographia.com/dhi.pdf

There is also no market evidence of widespread sales or rising vacancy rates due to rising insurance premiums, with industry analysis showing that:

- rental vacancy rates are steady or declining across much of regional Queensland, with the Cairns market described as having a shortage of available properties ;[18]
- unemployment and the mining sector are the main drivers in vacancy rates;[19] and,
- home and apartment sale markets are not in any widespread distress.

The insurance price signal

No evidence has been presented to date that indicates an insurance market failure. Insurance premiums reflect high cyclone losses and the market is responding rationally. The key issue is not the insurance market itself but rather the underlying levels of cyclone risk in northern Australia that should be directly addressed.

The interim report states that high insurance premiums

> …are likely to discourage investment, particularly in areas identified as high risk, as well as discourage people moving to these areas.[20]

The report also notes:

> …insurance premiums should provide an incentive for development in areas with lower risk of natural perils. To the extent that government intervention in the market dampens these signals, it has the potential to foster greater investment in high risk areas.[21]

High insurance premiums are a reflection of high risks, and although premiums are the price signal discouraging investment, it is ultimately the underlying level of risk that is influencing decisions.

Appropriate planning policies are an important foundation for community resilience. Queensland already has a legacy of poor planning and development decisions placing communities in harms way. For example, a new development at Carrara on the Gold Coast must incorporate a helipad and lifeboats as a condition of development approval because it will place 970 dwellings on a high-risk floodplain. [22]

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[18] Herron Todd White, *Month in Review – August 2015,* available: http://www.htw.com.au/Downloads/Files/273-Month-in-Review-August-2015.pdf

[19] Real Estate Institute of Queensland, *Regional Queensland vacancy rates patchy*, 24 July 2015, available: http://www.reiq.com/newsmedia/media-releases/2015/regional-queensland-vacancy-rates-patchy

[20] The Australian Government the Treasury, *Northern Australia Insurance Premiums Taskforce Interim* Report, 2015, p18

[21] The Australian Government the Treasury, *Northern Australia Insurance Premiums Taskforce Interim* Report, 2015, p23

[22] Courier Mail, *Development on cow paddock at Carrara, Gold Coast, expected to be approved but must have lifeboats*, 19 July 2013, available: http://www.couriermail.com.au/news/queensland/development-on-cow-paddock-at-carrara-gold-coast-expected-to-be-approved-but-must-have-lifeboats/story-fnihsrf2-1226681802980

In north Queensland, there are many examples of developments that do not meet planning criteria but are approved by councils despite natural hazard risk, such as the Rasmussen development approved by Townsville City Council earlier this year.[23]

Government policy should not seek to mask price signals and encourage more poor decisions. It is fundamental that the community has the opportunity to make their investment decisions with some signal of natural hazard risk.

[23] Townsville Bulletin, *$500m Rasmussen development gets green light*, 23 June 2015, available: http://www.townsvillebulletin.com.au/news/townsville/m-rasmussen-development-gets-green-light/story-fnjfzsax-1227410880652

The risks of market intervention

Creation of a mutual insurer or a reinsurance pool in northern Australia would be an inefficient and counterproductive approach to improving insurance affordability. More importantly, it would do nothing to protect lives, homes and irreplaceable possessions.

Whenever the insurance market has been examined, governments have always determined that market intervention is the wrong way to reduce premiums. This can be noted as far back as 1979, when then-Treasurer the Hon. John Howard issued a policy paper rejecting a policy proposal to introduce a reinsurance pool for north Queensland, stating:

> The Government is satisfied that a scheme of the kind that had been under discussion – that is, one involving the provision of Government financial backing to a 'pool' of insurance companies – would be inappropriate on budgetary, technical and insurance policy grounds. Beyond that, however, the Government also believes that such a scheme would be inconsistent with a basic tenet in its political philosophy – namely, that governments and government authorities should, to the maximum extent possible, seek to avoid intervention in matters that can be left to the private sector.[24]

This policy paper is attached for reference.

More recently in 2014, the Productivity Commission noted "international experience has shown that government intervention in property insurance markets through subsidies is overwhelmingly ineffective."[25]

The Financial System Inquiry has also concluded that, in the absence of market failure in northern Australia, government should refrain from intervention in the insurance market.[26]

The Interim Report acknowledges that international experiences of government intervention in insurance markets have been extremely poor. The Taskforce is yet to justify why or how an Australian pool or mutual would be any more successful.

[24] *Natural Disaster Insurance – A Policy Information paper issued by the Treasurer, The Hon. John Howard, M.P.,* 1979, piii
[25] Productivity Commission, *Natural Disaster Funding Arrangements: Inquiry Report*, 2014, p32
[26] *Financial System Inquiry: Final Report*, p 227

Moral hazard

Instances of market intervention internationally demonstrate that, without a price signal, moral hazard allows risks to continue to grow. For example, the increase in coverage of the US National Flood Insurance Program (NFIP) from 1.4 million homes in 1978 to 5.5 million homes in 2013 demonstrates the importance of maintaining a strong price signal on risk.

It is also incredibly difficult for government to withdraw from the market once government intervention occurs. In 2012, the Biggert-Waters Flood Insurance Reform Act attempted to increase premiums in line with flood risk to address long term insolvency in the US flood pool program. Voter backlash led to the repeal of many rate increases.

Dulling the insurance price signal and politicising insurance premiums inevitably fails, with governments effectively locked in to providing low cost insurance as risk exposure increases.

Ongoing government lock-in has also led to significant liabilities in international schemes. The NFIP currently holds USD$23 billion in debt,[27] and the New Zealand Government was left with a NZD$16 billion bill after the Christchurch earthquakes.[28]

Efficiency

Even if government is willing to commit to subsidising the substantial and ongoing risk of cyclone losses, a mutual or pool represents an inefficient method of delivering savings.

Premium reductions under this model would be spread too broadly to help those most in need. This is because a pool or mutual would reduce the costs of cyclone insurance for all policyholders, with the majority receiving a relatively small annual saving.

A cyclone only pool or mutual also removes risk diversification, a key efficiency gain of modern insurance portfolios that diversify risk across both perils and locations. Cover for a cyclone only pool in one region would, on a like for like basis, be proportionally more expensive to reinsure than a national multi-peril program. For example, removing cyclone risk from Suncorp's current program and purchasing an equivalent standalone cover is estimated to cost 213% more per dollar of capital required. [29] While the average annual loss and risk exposure would appear to simply transfer between entities, the volatility risk in a single-peril scheme is much higher, driving this cost disparity. In order to deliver a reduction in premiums, a government pool would need to absorb this additional cost.

The varying reinsurance arrangements of private insurers will also make it difficult for a government insurer to smoothly enter (or exit) the market.

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[27] US Government Accountability Office, *High Risk Series: An Update,* 2015, p77
[28] New Zealand Government, *Budget Policy Statement*, 2014, p10
[29] Suncorp and Aon Benfield modelling

Reinsurance contracts are often multi-year arrangements, and a change to market conditions during a contract could significantly impact private insurers and their willingness to participate in markets with high levels of cyclone risk. A transition that is equitable for all private insurers would be virtually impossible.

In addition, if government was to withdraw from offering cyclone cover in the future, it will have reinsurance pricing implications for private insurers re-entering this space. Re-incorporating cyclone cover into reinsurance arrangements would likely increase costs, making it difficult for insurers to see a business case for returning to the market. This would ultimately increase the long term cost to policy holders if a government scheme was not a permanent entry into the market.

Consumer outcomes

Separating cyclone risk from multi-risk insurance is also likely to lead to the kinds of poor customer experiences contemplated in the Interim Report, including:

- confusion at the time of purchase, particularly if an individual is required to take out multiple policies – increasing the possibility of consumers purchasing inadequate or incorrect cover; and,
- delays and confusion in the event of a claim, due to the difficulty in separating the causes of loss after an event – legal confusion such as that experienced after Hurricane Katrina and the Christchurch earthquakes will delay assessment and payment of claims, increase processing costs and stymie recovery and rebuilding efforts.

Any decline in consumer outcomes is concerning, particularly in light of the insurance industry's current push to improve transparency of cover. Following recommendations from the FSI and ASIC, Suncorp is working with the ICA to improve disclosure documents and product transparency. Any government intervention that makes insurance more complex for consumers will undermine this industry commitment.

Direct subsidies – an alternative approach to support mitigation

Suncorp joins the ICA in rejecting the need for government market intervention. However, if Government policy insists on taxpayer assistance, Suncorp believes funds should help those who need it most.

In conjunction with the ICA, Suncorp has been working to develop an alternative pathway for government to target assistance only to those with high insurance premiums.

A direct subsidy scheme will lower insurance premiums for individual homeowners without distorting the broader insurance market. It will also work alongside a mitigation program, targeting those most in need as an interim measure while retrofits sustainably reduce premiums in high risk areas over the long term.

A direct subsidy scheme delivers several benefits over a market intervention, such as:

- a significantly faster delivery of tangible premium reductions to customers with high cyclone risk;
- the ability to target assistance, and provide significant premium relief to the small number of residents who need it most;
- the ability to maintain a functioning insurance market and retain a clear price signal relating to risk; and,
- a simpler pathway to winding-down assistance as mitigation work reduces risk.

The ICA has commissioned Urbis to investigate how such a scheme could be developed and funded. Outcomes of this analysis will be shared with the Taskforce as they become available.

Conclusion

Suncorp is generally supportive of the work of the Taskforce, and is pleased the Interim Report acknowledged the importance of mitigation in addressing insurance affordability for northern Australia.

We look forward to working closely with the Taskforce as models are developed for improving affordability, and again urge the Taskforce to undertake further formal consultation once these options are complete.

Suncorp recommends the Taskforce take a measured, evidence-based approach to assessing and comparing the potential impacts of insurance market intervention against other options proposed in this submission.

Cyclone risk mitigation, in combination with targeted, short term premium subsidies, is the only proposed policy option that contributes to the economic and social development of northern Australia.

We urge government not to ignore the source of the issue, and instead commit to a policy that addresses insurance affordability in a sustainable, permanent fashion – by reducing the risk cyclones pose to northern Australian communities.

Appendix 1: Focus questions

Option 1: A mutual insurer offering cyclone cover to individuals

1. What are the advantages and disadvantages of a cyclone mutual insurer, supported by the Government, with the objective of lowering consumer premiums for home, contents and strata title insurance for people experiencing affordability problems due to cyclone risk? What form of Government support would likely be required?

Suncorp does not support market intervention through a pool or mutual. We have provided a significant volume of information to the Taskforce regarding the risks and impacts of introducing a government-backed insurer into the market.

For further information, see page 20.

2. How can a cyclone policy be sufficiently defined to fit neatly with a consumer's 'non-cyclone' policy purchased from a private insurer so there are no gaps in coverage?

Suncorp does not believe that cyclone cover should be separated from other insured risks.

As noted in Suncorp's substantive submission, separating cyclone and non-cyclone cover is likely to result in confusion for customers both at the time of purchase and when lodging a claim.

From an insurer perspective, differentiating between causes of loss after an event adds significant complexity. Continuing legal battles relating to claims from the Christchurch earthquakes illustrate this.

For further information, see page 21.

3. How should a cyclone mutual insurer price its policies?

Current market pricing, based on risk, is the most appropriate pricing model for cyclone insurance. Any pricing model that does not reflect risk will blunt price incentives and leave communities vulnerable to increasing risk.

For further information, see page 18.

4. Should insurance from a mutual be open to all or should eligibility be limited, such as to consumers on lower incomes or consumers who take mitigation action?

The only way for a mutual to work is at scale. A limited mutual would lack risk diversification and could become highly unstable. Limiting access would also push up the price of cover, counteracting the stated purpose of the policy.

For further information, see page 21.

5. What would be required for private insurers to be an agent for a cyclone mutual insurer and sell its policies and manage claims against those policies?

There would be a significant regulatory compliance burden placed on a private insurer to be able to act as an agent for a government-backed insurer. Legal requirements, particularly around policy wordings and disclosures, would require significant revision to facilitate this new model.

It is difficult to see how government could require private insurers to act as an agent without compensation, and it is unclear how this could be provide at a lower cost than the current competitive market.

6. What would be a suitable organisational and governance structure for a mutual insurer — a discretionary fund or an APRA regulated entity?

The only way to provide certainty for residents in high risk areas is for any insurer in the market to be APRA regulated. A 1 in 100 year cyclone event carries a risk level of $7 billion. A discretionary fund could easily collapse in the event of a cyclone that directly hits Cairns or Townsville. Residents need assurance that their claims can be paid, and in a timely fashion. A properly regulated insurer is the only way to provide peace of mind.

7. What are the advantages and disadvantages of putting a cap on the payout from the cyclone policy offered by a mutual?

Capping payouts offers relatively small risk savings to government, yet adds significantly to complexity of claims handling in disasters.

The first dollar of cover is the most expensive in insurance. It is the most likely to be claimed and includes all fixed operating expenses. Each additional dollar of cover becomes progressively cheaper to insure, as the probability of claims reduces, so there is relatively little to be saved by capping policies.

In addition, a capped policy may require individuals to purchase additional top-up insurance in the private market.

For further information on the complexity and confusion this can create for consumers, see page 22.

8. When and how could the Government reduce support for a cyclone mutual insurer?

Once government has entered the private insurance market, it is extremely difficult to withdraw. The interim report noted the poor international experiences of governments who have undertaken this kind of intervention. There may also be disincentives for private insurers to re-enter the market, due to the cost of re-entering reinsurance markets for cyclone cover.

For further information, see page 21.

Option 2: A reinsurance pool for cyclone risk

9. What are the advantages and disadvantages of a cyclone reinsurance pool, supported by the Government, with the objective of lowering consumer premiums for home, contents and strata title insurance for people experiencing affordability problems due to cyclone risk? What form of Government support would likely be required?

Suncorp does not support market intervention through a pool or mutual. We have provided a significant volume of information to the Taskforce regarding the risks and impacts of introducing a government-backed insurer into the market.

For further information, see page 20.

10. How should a cyclone reinsurance pool be designed to best fit with insurance companies' existing arrangements, including reinsurance arrangements? For example, how could cyclone and cyclone damage be defined so as provide certainty about what is covered by the reinsurance pool?

As noted in Suncorp's substantive submission, separately reinsuring cyclone risk will make existing multi-peril reinsurance arrangements less efficient, and lead to higher reinsurance costs for a pool. Modelling indicates that it could be an average of 213% more expensive to cover cyclone separately, rather than as part of a multi-peril cover.

In addition, differing reinsurance arrangements will make it difficult to conduct a smooth transition without someone losing out – for example, if an insurer has just entered a reinsurance contract, they do not have the same options as an insurer at the end of their program.

11. How should the price insurers pay for reinsurance from a reinsurance pool be calculated?

The price of reinsurance would need to be calculated based on the price government wants consumers to pay. Without further detail around a model or target pricing, it is difficult to provide insight on pricing issues. However, as previously advised, it is likely that separating cyclone cover will increase the price of both cyclone and non-cyclone reinsurance, resulting in higher technical premiums.

12. What are the advantages and disadvantages of limiting payouts available under a reinsurance pool arrangement?

Capping payouts offers relatively small risk savings to government, yet adds significantly to complexity of claims handling in disasters.

The first dollar of cover is the most expensive in insurance. It is the most likely to be claimed and includes all fixed operating expenses. Each additional dollar of cover becomes progressively cheaper to insure, as the probability of claims reduces, so there is relatively little to be saved by capping policies.

In addition, a capped policy may require individuals to purchase additional top-up insurance in the private market.

For further information on the complexity and confusion this can create for consumers, see page 22.

13. When and how could the Government reduce support to the market through a cyclone reinsurance pool?

Once government has entered the private insurance market, it is extremely difficult to withdraw. The interim report noted the poor international experiences of governments who have undertaken this kind of intervention. There may also be disincentives for private insurers to re-enter the market, due to the cost of re-entering reinsurance markets for cyclone cover.

For further information, see page 21.

14. How could a cyclone reinsurance pool scheme be structured to provide an incentive to policy holders to mitigate the risk of cyclone damage?

By blunting the price signal provided by risk-based premiums, a pool is unlikely to act as an incentive for policyholders to undertake mitigation activities. In fact, a pool is likely to incentivise more risky behaviour.

The only way to encourage mitigation is through risk-based insurance pricing, coupled with targeted assistance where required.

Other options

15. Are there any other approaches that could lower premiums in areas where affordability is a concern due to cyclone risk?

Suncorp is proposing a government-supported retrofit scheme that will provide a pathway to cyclone resilient homes in northern Australia. Along with industry, we also propose that this could be complemented by short term, targeted assistance for those most in need of premium relief.

Along with our *Protecting the North* package of affordability and resilience initiatives, this approach will allow both quick relief and long-term risk reduction.

For more information on Suncorp's proposed approach, see page 8.

Mitigation

16. What can be done to encourage greater efforts to mitigate the risk of damage from cyclones? Are there impediments to insurance premiums being responsive to mitigation action by property owners?

Suncorp is already working to provide lower premiums for homeowners undertaking recognised mitigation activities. For more information, see Appendix 3.

Additional incentives may be needed to promote broad uptake of home retrofits. Suncorp has proposed a government supported home retrofit scheme, designed to reduce upfront costs of mitigation work.

17. What are the advantages and disadvantages of establishing an independent assessment process to determine the vulnerability of a house to cyclone damage and to verify what mitigation work has been undertaken? How could such a process be established?

In principle, Suncorp is supportive of an independent assessment program that would allow for more building accurate building information to be collected and made accessible to insurers.

If such a scheme was to be developed, it would be important for government, insurers and builders to work together to design a training and licensing program for assessors.

18. What are the advantages and disadvantages of (a) establishing a rating system for building vulnerability to cyclone damage that could be publicly disclosed at the time of sale, and (b) establishing a centralised database on building information that could be accessed by insurers?

In principle, Suncorp supports any measure that provides consumers with useful information about the risk profile of their property. Risk and the cost of insurance should not be an afterthought, and providing risk information to consumers at the point of sale will assist them in making informed purchasing decisions.

Suncorp also supports the general concept of establishing a centralised database of building information. Having building information centrally available would allow insurers to more effectively assess risk.

19. What are the advantages and disadvantages of using increased excesses or policy exclusions to reduce the number of small claims following a cyclone?

Suncorp data shows that minor claims represented 86% of claims filed, and 29% of the total claims cost. While it would be possible to exclude small items from policies, this would increase confusion and dissatisfaction for consumers.

We believe that customers should have confidence that all household goods are covered, particularly at a time when industry is focused on making our products easier to understand.

We believe that a community awareness campaign to drive behavioural change and mitigation efforts would be the most effective method of reducing the frequency of small claims – this is supported by JCU and Urbis analysis. For further information, see Appendix 4 and attached JCU and Urbis research.

Appendix 2: Suncorp affordability initiatives

Suncorp has been working independently and with the insurance industry to improve resilience and reduce the impact of premium increases in northern Australia. Through our *Protecting the North* initiative, Suncorp is demonstrating a commitment to building resilience into communities. Our ongoing *Build to Last* partnership with Green Cross, JCU and Urbis will continue to drive innovation in cyclone resilience.

We are also working through the ICA to coordinate a broad industry approach to improving the accessibility of insurance.

Strata insurance

Suncorp recognises that mandatory insurance is a major expense for strata committees.

Earlier in 2015, Suncorp introduced a strata insurance product targeted specifically at smaller complexes. The product is sold directly through Suncorp call centres, and on average is around 20% cheaper than competitor products.

In addition to cost savings upfront, a resilience feature is built into these policies. In the event of a major claim, policyholders can access an additional $10,000 to upgrade the building to be more resilient to natural hazards.

To date, over 140 properties in north Queensland have taken up direct strata policies.[30] It is anticipated that this number will continue to increase as strata title owners and managers reach the end of their existing annual policies.

This product is tailored for a specific segment of the strata market, but Suncorp is committed to exploring how we can best cater to other sectors of the strata insurance market.

In addition, mitigation measures identified in our *Build to Last* report will enhance the resilience of strata buildings, particularly the solutions to strengthen and protect windows, doors and roller doors. Suncorp, under its risk-based pricing approach, commits to rewarding these measures in reduced premiums if carried out.

Suncorp has also joined the insurance industry in welcoming $12.5 million in Federal Budget funds towards engineering assessment reports on strata buildings in north Queensland. There is still a lot of room for improvement in the area of risk data and such reports will help industry more accurately and confidently price strata buildings in north

[30] Suncorp policy data

Queensland. Suncorp looks forward to the expenditure of these funds and assessments being conducted in the region as soon as possible.

Suncorp has also taken steps to make higher voluntary excesses available to Vero strata policyholders, which will allow strata complexes to significantly reduce their premiums.

Resilience rating

The interim report noted that it has been difficult for insurers to incorporate individual household mitigation into pricing.

To address this gap, Suncorp is developing a system that will allow policyholders to have their premiums reduced by up to 20% if they can demonstrate a lower level of risk.

Once implemented, Suncorp will be able to ask customers a series of questions about any mitigation work they have undertaken on their home, in order to calculate a resilience rating. Suncorp will then be able to provide a reduced premium based on the resilience rating.

In addition to delivering immediately reduced premiums for proactive homeowners, the data collected through this system will allow Suncorp to develop a more detailed picture of our risk profile. In the longer term, this may provide sufficient evidence of reduced risk to help lower reinsurance costs – delivering further savings to customers.

Essentials by AAI

Insurance is not accessible to many low-income Australians. Up to one in five adults do not have insurance cover for their contents, car or home.[31]

This lack of cover places low-income earners in a precarious financial position. Even minor mishaps affecting key assets, like cars and fridges, can result in significant financial hardship and disrupt the day-to-day lives of low-income earning Australians.

This issue exists nationally and is not confined only to northern Australia. In order to make insurance more accessible to low income earners who may not be able to access traditional insurance products, Suncorp has partnered with Good Shepherd Microfinance to launch *Essentials by AAI*.

Initially offering home contents and car cover options tailored to the needs to low income earners, policies will start from $4 per week and scale based on the level of cover.

Essentials has been created to provide better access to affordable, easy to understand products via a trusted network of provider locations. This will enable low-income earners to accumulate and use assets with much greater safety and confidence.

[31] The Centre for Social Impact for NAB, *Measuring Financial Exclusion in Australia,* June 2013

Economic modelling by Strategic Project Partners (SPP) estimates that helping just 7% of low-income households to move into mainstream financial inclusion could deliver an annual GDP benefit of $19.7b.[32]

Essentials by AAI will allow many people to access insurance for the first time, in addition to offering substantial savings to low income earners currently struggling to pay premiums on traditional policies.

Disclosure

The Interim Report noted that, while insurers may have clear logic behind price increases in high risk areas, this has not always been communicated well to consumers.

Suncorp agrees that communication with customers relating to insurance can generally be improved, and is committed to developing better ways of talking with our customers and delivering important information. This is why we have been working with the ICA Effective Disclosure Taskforce to set the principles for a more effective relationship with customers. Better end-to-end disclosures will improve customer understanding of their policies, and improve consumer outcomes.

Outcomes from the Effective Disclosure Taskforce are expected in late 2015.

[32] SPP and Good Shepherd Microfinance, *Count Me In. Microfinance, Inclusion, and Economic Growth*

Appendix 3: Other policies impacting insurance prices

State and Territory governments have responsibility for a number of policies that influence natural hazard risk, insurance coverage and the price of premiums, including:

- land-use planning;
- the National Construction Code;
- insurance taxation;
- disaster mitigation funding programs;
- sharing of natural hazard risk information; and,
- improved support for local government.

Enhanced coordination of these policies would contribute to better natural hazard management and lower insurance premiums.

The role of building codes

The national construction code is a key piece of regulation that affects the level of risk throughout Australia. The value of requiring homes to be constructed to a stronger building code is particularly clear in cyclone prone areas.

While clearly building codes have already played an important role in lessening the impact of natural disasters, more can be done to improve their effectiveness. For instance, the current objective of the Australian Building Codes Board (ABCB) includes to:

> …establish codes and standards that are the minimum necessary to efficiently achieve the relevant mission of ensuring safety and health, and amenity and sustainability objectives.[33]

The mission of the ABCB should be expanded to include an explicit resilience objective. This would ensure the full range of economic benefits associated with code improvements are considered throughout regulatory impact analysis. Currently, the ABCB mission only supports analysis based on safety, health and sustainability objectives.

Changes that would improve resilience, but don't improve safety and health, are likely to fail regulatory impact analysis and are therefore not included in building codes. For example, protection against wind driven rain ingress around windows and doors has no

[33] Australian Building Codes Board, *Australian Building Codes Board Intergovernmental Agreement,* 2012, pg. 8.

effect on safety and health, but would significantly improve outcomes following a tropical cyclone by avoiding consequential damage to furnishings and plasterboard.[34]

This gap in objectives was recognised by the ABCB Chairman in his submission to the Productivity Commission's Inquiry *Barriers to effective climate change adaptation*:

> The ABCB's commitment through the IGA [Intergovernmental Agreement] to BCA [Building Code of Australia] provisions being cost effective may restrict efforts to make buildings more resilient. The costs change to building design is a real cost that can be easily estimated, while the benefits provided would be in terms of probable reductions in damage, injury or loss of life and are often intangible, difficult to estimate and have a long timeframe.[35]

We advocate for amendment of the mission and objectives of the Australian Building Codes Board (ABCB) to include an explicit focus on building community resilience to natural hazards. Importantly, this would recognise the economic and productive value of assets in addition to the protection of life goals currently within the regulation.

A stronger building code should also be supported by enforcement. The Queensland Building and Construction Commission recently conducted a random audit of 112 buildings in Mackay and found 11 did not meet cyclone standards.[36] It is crucial that the building code is robustly enforced to ensure new homes stand the best possible chance of withstanding future cyclones and natural hazards.

Smarter urban planning

Disaster risk management can also be achieved through risk-informed urban planning. As more homes and businesses are built, the impact of natural hazards increases due to the higher number of structures exposed to natural hazards. Placing homes and businesses in smarter locations will help reduce the likelihood and cost of natural disasters.

Our expanding built environment creates a clear need for risk-informed urban planning that helps to manage exposure to natural hazard risks. Risk-informed planning is not a new concept, indeed a 1909 Royal Commission into the town planning of Sydney states:

> Provision should also be made in such an Act to minimise fire risks arising from the overcrowding of building areas, the absence of fire breaks and proper means of access.[37]

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[34] Boughton et. al, "Tech Report No 57", *Tropical Cyclone Yasi Structural Damage to Buildings*, James Cook University, 19 April 2011, pg. 81, available: https://www.jcu.edu.au/cts/publications/content/technical-reports/jcu-078421.pdf/view

[35] Australian Building Codes Board, *Submission to the Productivity Commission Inquiry into Regulatory and Policy Barriers to Effective Climate Change Adaption – Draft Report*, June 2012, pg.10.

[36] Melissa Maddison, *Mackay building audit reveals cyclone standards shortfall*, ABC News, 21 March 2013, available: http://www.abc.net.au/news/2014-03-21/mackay-building-audit-reveals-cyclone-standards-shortfall/5336012

[37] Royal Commission for the Improvement of the City of Sydney and its Suburbs, *Final Report*, 1909, pg. xxiv, available: http://www.photosau.com.au/CoSMaps/maps/pdf/RC_R/6%20-%20FINAL%20REPORT.pdf

More than a century later, the National Strategy for Disaster Resilience expresses a similar concept:

> The strategic planning system is particularly important in contributing to the creation of safer and sustainable communities. Locating new or expanding existing settlements and infrastructure in areas exposed to unreasonable risk is irresponsible.[38]

It is clear that urban planning is a challenging policy area with a huge range of competing priorities making regulation difficult for governments. The long lifespan of buildings and infrastructure however, mean that a shortfall in the planning scheme can leave the community at an unacceptable level of risk environment for 100 years or more.

It is crucial that smarter urban planning takes place today to ensure that new developments can proceed in a resilient manner, protecting future communities from the harsh impacts of natural disasters.

Taxes and charges

Insurance taxes, duties and levies currently form a significant barrier against Australians purchasing affordable insurance cover. Despite the vital economic protection insurance offers the community insurance premiums are currently subject to the imposition of multiple taxes. These taxes significantly increase the cost of insurance and may contribute to deterring customers both from purchasing insurance cover and from obtaining appropriate levels of cover. ICA research indicates that, across Australia, households would be likely to purchase or increase their insurance cover by a total of up to $36 billion if state and territory insurance taxes were abolished.

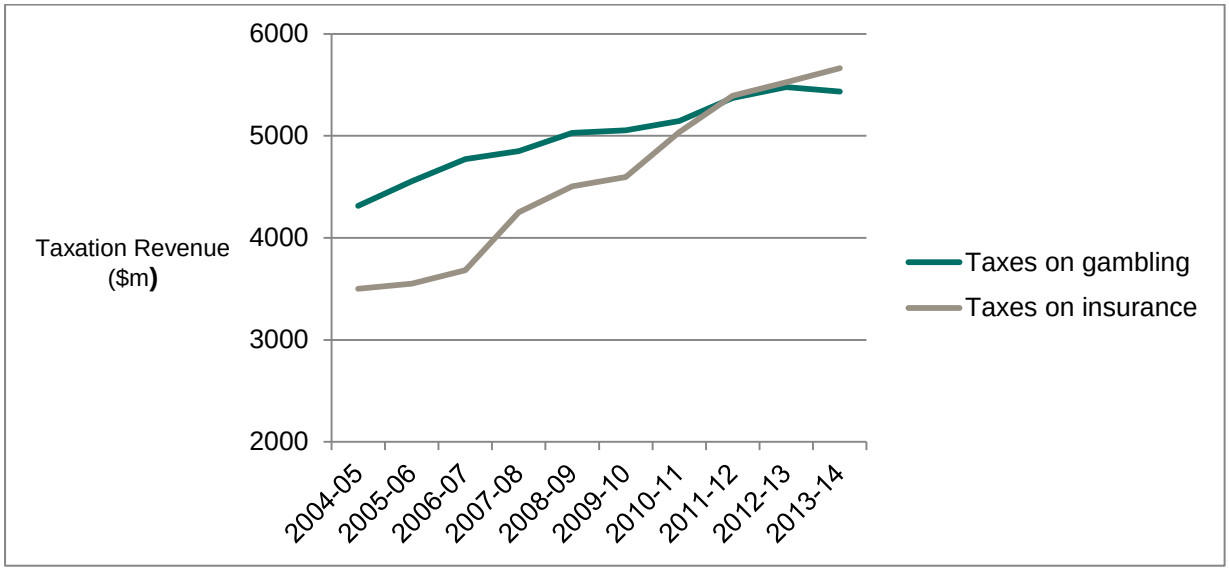
The effect that insurance taxation has on insurance affordability is significant. Throughout the 2014/15 financial year insurance premiums in Queensland were subject to two additional taxes - GST (10%) and Stamp Duty (9%). These taxes are charged in a compounding fashion (i.e. a tax on a tax) which further exacerbates the impact.

[38] Council of Australian Governments, *National Strategy for Disaster Resilience*, February 2011, pg. 11.

In combination, taxes add almost 20% to Queensland home and contents premiums. This tax regime also creates a tax multiplication effect on premium changes. As insurers adjust risk based pricing in recognition of new and increased risk related to extreme weather, any change in premium increase will be exacerbated by insurance taxes.

In the current taxation environment a $1 premium increase in Queensland will ultimately cost our customers an additional $1.20 in total premium. This government receives an additional $0.20 in unexpected revenue for every additional dollar of premiums collected by insurers.

This tax environment is not unique to Queensland. All states and territories have at least one tax, duty or levy applied on insurance premiums. The Australian Bureau of Statistics reports that insurance taxes contributed $5.66 billion in taxation revenue across all levels of government in the 2013-14 tax year.[39] By comparison, the so called 'sin tax' on gambling (designed to discourage gambling) contributed a broadly similar total of $5.43 billion over the same period. Insurance taxation revenues have increased to the point where they now outstrip gambling tax revenues.



Source: 5506.0 - Taxation Revenue, Australia Bureau of Statistics, 13/05/2015

FIGURE 7: Taxation Summary Data

[39] 5506.0 - Taxation Revenue, Australia, 2009-10, Australian Bureau of Statistics 13/05/2015

Appendix 4: JCU and Urbis research fact sheets

In Brief: JCU Cyclone Research

Overview

- Suncorp provided policy and claims data to the Cyclone Testing Station (CTS) at James Cook University (JCU) for analysis.
- Across north Queensland, Suncorp paid over $250 million in losses as a result of Cyclone Yasi:
  - In affected areas, 1 in 4 Suncorp policyholders (26%) made a claim.
  - If Yasi had hit a major population centre such as Townsville, the damage bill could have been 5 – 10 times higher.

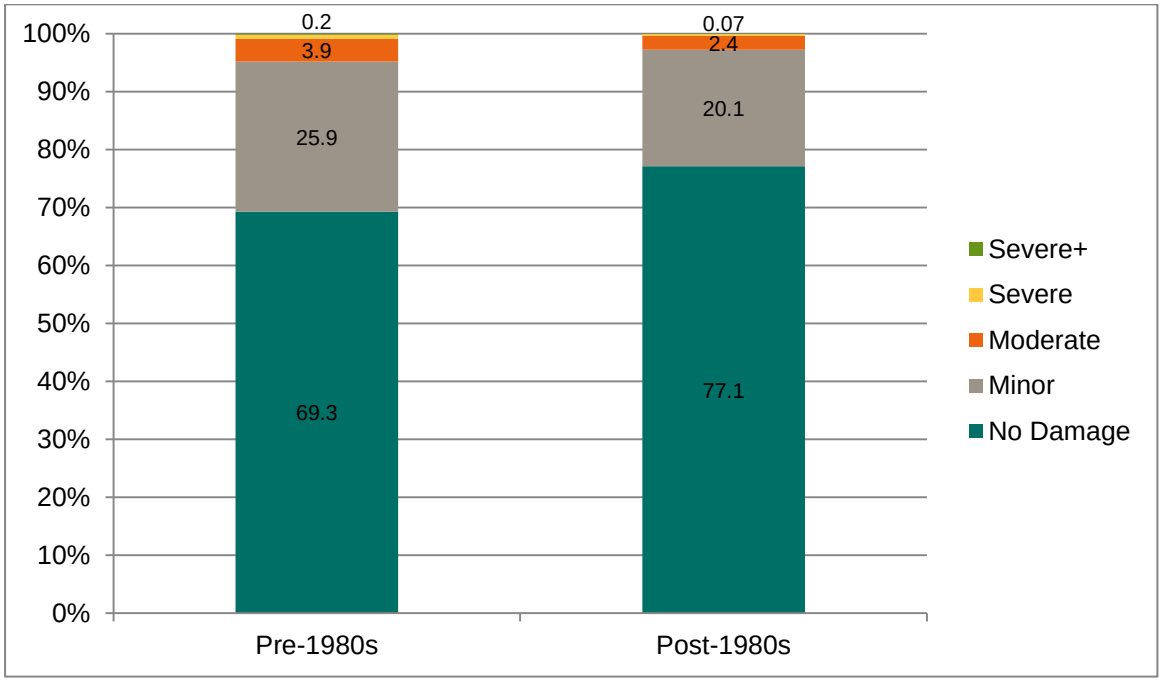
Cyclone Yasi Damage – North Queensland Coastal Region

Damage level	% of claims	Sum of claims	% total cost
Minor	86%	$73,470,201	29%
Moderate	12%	$110,404,702	44%
Severe	2%	$48,015,736	19%
Severe +	<1%	$19,753,513	8%

Research Highlights

- **Most claims for minor damage:**
  - Overall, **86%** of claims were for minor damage (less than 10% of sum insured)
  - Many **small claims are preventable** if residents properly prepare for cyclones
  - In Townsville, **94%** of claims were identified as minor (and in most cases preventable), accounting for **60%** of the claims costs for the region.
- **Major structural failures dominate losses**, even a small proportion of houses can dominate losses:
  - Overall, less than **3%** of claims were severe or worse (over 50% of sum insured), yet they accounted for **27%** of the total claims cost.
- **Resilience varies with building age:**
  - Homes built before 1982 (predating modern building codes) are more vulnerable to structural failure
  - **Windows and doors** are the weakest points in new buildings – when they fail, they allow wind and water into the building leading to further damage.

Cyclone Damage vs Building Age – North Queensland Coastal Region



Building age vs damage type contributions (pre- and post-1980s) to the total number of claims filed in relation to Cyclone Yasi for the North Queensland Coastal Region (note: "Severe+" bin proportions are less than 1% each and omitted from this figure for clarity)

Mitigation Opportunities

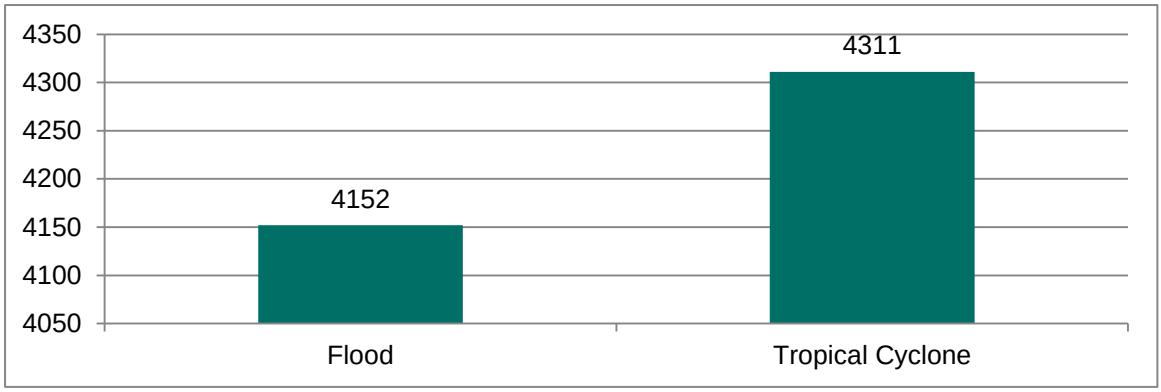
- **Roof upgrades (for pre-1980 houses only):**
  - Options include full replacements, additional strapping or over-battens, ranging in cost from $3,000 to $30,000
  - All upgrade options focus on tying the roof to the ground to handle high wind speeds.
- **Roller doors:**
  - Around 90% of modern homes have roller doors, and their failure contributes to almost one in three large claims.
  - After-market bracing costs just $300, and could prevent up to $10,000 worth of damage in the event of a cyclone.
- **Window coverings:**
  - DIY window coverings can be installed for around $1,360, and can reduce the cost of a claim by up to $15,000.
- **Community awareness:**
  - Simple actions like securing garden sheds, removing shade sails, and bringing outdoor furniture inside can prevent claims and reduce insurance costs.
  - Improving community awareness and engagement could be extremely cost-effective in reducing the number of minor claims.

In Brief: Urbis BCR Analysis

Overview

- Urbis used Suncorp data and James Cook University (JCU) analysis to determine the benefit cost ratios (BCRs) for different mitigation options.
- Cyclones have historically been the most damaging natural hazard risk facing north Queensland, making them an obvious target for mitigation activity.

North Queensland Housing Equivalent Natural Hazard Losses 1950-2011



Source: QDCS, 2012

Benefit Cost Ratios for Mitigation

Mitigation option	Cost per household	Total benefit per household	BCR	Payback period***
Community awareness campaign*	$55 – $136	$440 – $820	3.2 – 14.8	<1 – 6 years
Opening protection – self-installed (Low cost scenario)	$1,660	$1,990 – $6,400	1.2 – 3.9	4 – 21 years
Roofing option – strapping only (Low cost scenario)	$3,000	$12,900 – $38,800	4.3 – 12.9	2 – 4 years
Roofing option – over-batten system (Medium cost scenario)	$12,000	$13,500 – $39,400	1.1 – 3.3	5 – 37 years

*NB: Values taken as an average over House Type A and House Type B, except for community awareness campaign, which is an average over all house types. Total Benefit does not discount the cost of mitigation. The lower range of values are based on conservative wind speeds and are modelled over only 39 postcodes. *-Government funded campaign, applied per household. **NPV over 50 years. ***Payback period refers to the number of years required for the value of benefit to outweigh cost of mitigation option – applied across all parties, not just the consumer.*
Source: Urbis modelling, JCU, Suncorp Group

Research Highlights

- Some **low-cost retrofits** will pay for themselves after only one Yasi-like cyclone.
- A suite of **low cost mitigation measures delivered a BCR of 3.2** under low wind speeds.
- A **community awareness** program is a highly effective option to reduce small claims.
- Retrofit **prices can be expected to reduce** as demand increases and a market is created for building upgrades:
    - Solar panel installation costs are expected to reduce by **over 40%** by 2030 due to economies of scale and increased innovation.
- A combination of **government rebates and insurance premium reduction** would ensure that households see a reasonable payback period, and are incentivised to invest in retrofits.

Cyclone Yasi case study

- Using Suncorp claims data and JCU analysis, Urbis modelled how proposed mitigation strategies could have changed the outcomes for houses damaged by Cyclone Yasi.

Mitigation Option:	Roofing	Opening	Community	Roofing	Opening	Community	Opening	Community
	House Type A (pre 1960)			House Type B (1960-1980)			House Type C (post 1980)	
High cost	0.1	0.2	**4.5**	0.2	0.2	**7.7**	0.1	**3.5**
Low cost	**1.5**	0.5	**4.5**	**1.4**	0.4	**7.7**	0.2	**3.5**
Medium cost	0.4	0.5	**4.5**	0.9	0.4	**7.7**	0.2	**3.5**

Source: Urbis modelling, JCU, Suncorp Group

- The **community awareness program** showed the highest BCR due to low implementation costs:
    - For all house types, a community awareness program **pays for itself after a single cyclone.**
- **Low cost roof strapping** also showed a positive return for houses built prior to 1980.
- This analysis is based on returns after a single cyclonic event – most houses would be subject to multiple cyclones over their lifespan.

Appendix 5: Additional documents

Please find the following additional documents attached separately:

1. *Build to Last* Report
2. JCU Cyclone Research – phase 1
3. JCU Cyclone Research – phase 2
4. Urbis Cyclone Mitigation Report
5. Risk Apportionment in the Insurance Sector
6. Natural Disaster Insurance – A Policy Information Paper issued by the Treasurer, The Hon. John Howard, M.P., May 1979