

19 November 2022

Joint Select Committee on Northern Australia
PO Box 6100
Parliament House
Canberra ACT 2600
Email:- northernaustralia.joint@aph.gov.au

Submission: Joint Select Committee on Northern Australia inquiry into the operation and implementation of the Cyclone Reinsurance Pool.

Dear JSC Secretariat

Thank you for inviting public submissions to your inquiry. Please find our submission.

Our Interest in this Inquiry.

Northern Australia (NA) including our North Queensland (NQ) strata bodies corporate are subject to an enduring decade long home insurance affordability crisis, when compared with the rest of Australia (ROA).

NQ The Townsville Lot Owners Group (TLOG) to date have collected and analysed insurance tax invoices from more than 10% of the 1,527¹ Townsville strata insured properties. We want our Australian Reinsurance Pool Corporation (ARPC)² Cyclone Reinsurance Pool (CRP) and ACCC-Monitoring³ (ACCC-M) to use verified insurance risk evidence replacing the folklore and fiction as the basis for affordable insurance objectives of the CRP for NQ strata.

The ACCC-M have so much to monitor, so many variables, but we are thankful they have been given time and budget⁴ to achieve significant insurance changes for a better future for NA insured.

Our submission believes the ARPC - CRP proposal for cyclonic Australia has huge upside potential to arrest the out of regulatory control home insurance crisis. Our submission highlights influencing factors and claims that may impair or improve the CRP objectives.

We thank our members of parliament and regulators both state and national for their CRP endeavours to fix this NA property insurance crisis once and for all!

¹ See attachment TLOG Observation-20

² ARPC Fact Sheet - Cyclone Reinsurance Pool - 06.05.2022

³ ACCC – Australian Competition & Consumer Commission – Role in insurance CRP monitoring fact sheet – 20 May 2022

⁴ \$18.4 million over 5 years

Summary:

The NA and NQ home insured welcome any home insurance program that is designed to reduce the cost of premiums. This ARPC-CRP project is the 7th NQ insurance affordability project attempted by Canberra since 2011. None of the previous programs delivered any affordability respite. If anything, they encouraged the NA insurers to be more brazen as no pricing controls were found to exist at these times.

Modelling today demonstrates that if the CRP can save just 20%⁵ (\$1000) per policy, then the 880,000⁶ CRP eligible property policies can then repurpose and return some \$880 million back into the NA economy and communities..... per year!

The CRP-ACCC-M project we believe will make visible the 80% insurance price corrections required to get NA properties on pricing equality with ROA properties. Government fees and insurance sales commissions rake in 80% more taxes, stamp duties and sales commissions from the NA insured when compared to the equivalent ROA normalised property taxes, duties and commissions. All is folklore justified on NA having more unverified natural disaster risks than the ROA.

In the spirit for the purpose of this CRP, the NA insurance companies have no reason to increase NA property insurance prices from now on. If they need to, the newly anointed ACCC-M can now monitor their please explain details.

We welcome the design intent that the CRP program is to be administered by the APRC and monitored by the ACCC-M. Finally, NA now have two assigned regulators to watch over the use and abuse of invented natural disaster reinsurance pricing. The cavalry has finally arrived! The insurers now become accountable.

Our three biggest CRP concerns are

- (1) Data Integrity:** Whose data and what type of data will the ACCC-M use this time and how will it be verified?
- (2) Breach:** What happens if the ACCC-M does detect insurance contracts law, regulatory failures, and Insurance Code of conduct breaches?
- (3) Reporting** Five ACCC-M reports in five years for \$18.4 million dollars is not a good return value for the uninformed NA insured.

Our submission here is a tad voluminous, but we are truly concerned that, yet another remote Treasury project could crash due to lack of up-front empathy and understanding of the community expectations. This submission details our expectations and lists many factors why the NA Insurance crisis exists. Our active and appreciated members of parliament have secured the funding and the time, let's all pray for NA that our ACCC-M with the CRP can now solve the crisis.

The ACCC-M have a huge job to do, our submission here opens their eyes widely to view how big the NA crisis is, and will this new 2022 CRP toolbox solve the NA insurance affordability crisis.?

⁵ Canstar recently report \$5058 as the average NA house insurance

⁶ 880,000 – Treasury CRP media release 7th Feb 2022.

Introduction:

The NA strata home insurance affordability crisis began in 2011 when market share competition and pricing incompetence occurred amongst the insurance providers and the regulators.⁷

One in five homes in Queensland is a strata home. There are 9,013⁸ NA strata buildings which are above the insurance market dividing Rockhampton line. Many of the 6,610 NQ strata building above this line are paying around ten times more for the strata insurance premiums than what the 330,000 ROA strata buildings below the Rockhampton Line are paying.

The State and Federal governments now collect 90% more additional Queensland strata insurance GST (10%) and Stamp Duty (9%) from the 6,610 NQ strata communities. Yet worse, we find the NQ insurance providers are still imposing a whopping 20%⁹ bloated sales commissions on the strata insured that should make the Banking Royal Commission reconvene, as it warned the insured community “that paying insurance commissions for no work is not in the best interests of the consumers”. The three compulsory Queensland BCCM¹⁰ prescribed strata insurances require no sales efforts and no work obligations and have been morphed to become a massive profit picnic for the insurance providers. The 20% sales commissions are also factored 90% more for NA strata than ROA strata, and in most cases, insurance sales commissions exceed insurance claims for most strata.

The ACCC-M will witness the CRP insurance behaviours and impacts from the next 20 cyclones¹¹ predicted to occur over the next 5 years.

We pray the ACCC-M will explore the composition contents of compulsory¹² strata and all other optional property insurance policies. Separating out the cyclone natural disaster components, leaving the remaining property insurance priced components all now unmasked and naked for forensic monitoring and risk and value verifications.

Separating the CRP natural disaster reinsurance component from the insurance policy costing should place all NA building insured on equal risk parity and thus pricing parity with the non-natural disaster exposed, non CRP buildings insured in Southeast Queensland and ROA.

Another of the CRP objectives we like is their plan for better data visibility of obtaining building natural disasters resilience and mitigation insurance performances. We see this as the start of new data driven opportunities that can detect from natural disaster events the best building type claims resilience and thus enable best in class future mitigation designs. These two CRP ACCC-M disaster by-products data sets should be most welcomed by the Federal Minister for Emergency Management and NEMA¹³

⁷ Australian Government Actuary 3/10/2012 Report on investigation into strata title insurance price rises in NQ.

⁸ ACCC NAI – Northern Australian Insurance Inquiry final report 2020. = and equates to 180,000 residents

⁹ Figure 16.2 - 20% sales commission are what the Insurers submitted to the ACCC NAI

¹⁰ BCCM Queensland community titles strata is managed by the Body Corporate Community Management Act 1997

¹¹ Townsville Bulletin 17/11/2022 BOM cyclone forecast news article.

¹² Queensland Government BCCM-Act 1997 prescribes three mandatory insurance products all strata must have by law.

¹³ NEMA – new Federal National Emergency Management Agency

The NA Claims History:

- 2011 ICA¹⁴&¹⁵The Townsville average strata insurance premium is \$48,211 (Cairns \$36,300)
- 2011 ICA The typical Insurance premium “stack” pricing costs components are:- 6% for reinsurance costs, 36% for Natural Peril Risk, 30% for non-natural disaster risks, 26% operating costs and 2% profit.
- 2012 ICA¹⁶ Strata buildings are a greater insurance risk than residential housing.
- 2014 ICA¹⁷ North Queensland properties face natural hazards at a greater frequency and intensity than other regions,
- 2015 Treasury report for the period 1995-2015 the Australian total strata cyclone claims costs were a mere 4.6% (\$114m) of the National \$2,442 million cyclone Home + Contents + Strata claims costs.
- 2016 NAI report 86,000 of 430,000 NA homes are not insured.
- 2018 NAI report for the period 2008-2018 the Australian strata total cyclone claims costs again a mere 1% (\$17.9m) of the national \$1,700 million cyclone Home + Content + Strata claims cost.
- 2019 Suncorp¹⁸ proudly proclaim natural hazard risk is a primary driver of insurance costs in NA. NA has a risk problem, not a pricing problem! Reinsurance costs in NA have been approximately two to three times higher than the cost in other regions of Australia in the past 10 years
- 2019 NAI reported the NQ strata building average insurance was \$6,800 (= \$680 per lot¹⁹)
- 2019 NAI reported the ROA strata building average insurance was \$3,300 (= \$330 per lot²⁰)
- 2019 NAI reported the NA residential house average insurance was \$2,500
- 2019 NAI reported the ROA residential house average insurance was \$1,400
- 2019 ICA. Proclaim insurers are not responsible for mitigation²¹
- 2021 TLOG letter to the BCCM seeking insurance regulatory repairs to fix the denial of strata consumer choice, eliminate insurance procurement discrimination and to stop the underinsuring of strata NQ²².
- 2021 Housing crisis. Townsville LGA report 86 % drop in new apartment build development applications (Cairns 63%).
- 2022 Canstar report **\$5,058** as the new NA home insurance average price.
- 2022 TLOG Townsville strata tax invoice studies find **\$3,375** as the new per lot average.

¹⁴ ICA = Insurance Council of Australia – the national lobby group

¹⁵ A34.6 ICA submission to House of Representatives Inquiry into Residential Strata Insurance 2012

¹⁶ A35.3 ICA submission to House of Representatives residential insurance inquiry 2012.

¹⁷ A34.12 ICA submission to Federal Treasury paper addressing the high cost of home and strata title insurance in NQ

¹⁸ A34.2 Suncorp submission to NAI in 2018

¹⁹ The Queensland Titles office report the average number of lots per community titles scheme strata building is ten

²⁰ The Queensland Titles office report the average number of lots per community titles scheme strata building is ten

²¹ 1/11/2019 ICA media publication- Who should fund the mitigation of natural hazards?

²² NAI report 17 strata properties as uninsured and BCCM self-report 32 strata properties applied for alternative insurance.

ACCC-M Monitoring:

The Federal government legislated the 2022 ARPC-CRP as the preferred outcome of the NAII-recommendations. The ACCC-M²³ was to have started baseline insurance monitoring works in February 2022. The CRP commenced the 1st of July. The ACCC-M 2022 report is due soon.

The ACCC-M monitoring role published detail is vague, their fact sheets^{24,25} mentions broadly but details little. We are not sure what we can expect. The ACCC CRP reporting obligation is also vague and should be improved to delivering **two** fixed dated reports, say May and November each year as a more responsible and professional output for a \$18.4 million, 5-year community investment and is delivered outside the cyclone season.

ACCC-Monitoring – Expectations

We believe this inquiry should task the ACCC for more clarity on what is to be monitored and reported how.

We are nervous here as we understand no NQ person is recruited into the ACCC-M program. Like other previous inquiries, the ACCC-M has little “skin in this CRP game” let alone an insured home in NA. Nor are we informed if the ACCC-M has the insurance knowledge and skill sets to analyse and report on the CRP data, is a university being subcontracted in?

Our ACCC-M now has opportunity to exceed all CRP expectations, to innovate, investigate and deliver a NA insurance changing fix event that benefits the whole of NA and all of Australia. We now ask that the ACCC-M consider adding the below listed insurance market variables to its monitoring program.

1. Define where the ACCC-M will be obtaining its data from? And how it will be verified?
2. We expect the ACCC to collect and analyse 10,000 NA mixed property “paid” tax invoices per year as it is the tax invoices that caused the crisis.
3. Function test the CRP objectives by reporting on every 2022 baseline property insurance policy that incurs a price increase in any of the next 5 years.
4. Conduct “fit for” purpose insurance product compliance testing especially for monitoring prescribed strata policies. All insurance product sales should serve the property owner and the government disaster recovery needs ahead of the profit and reduced risk motives of the insurers, eg dubious sovereign risk ISR policies that now invade our northern lands.
5. Detect junk insurance and insurance products of low-quality value infesting the CRP market.
6. Monitor the growing trend of insurer risk transfers via “special excess” provisions that is making strata become self-insured for no reduction in pricing.

²³ 3/12/2021 Treasury announced the ACCC has been awarded a \$18.4 million 5-year program to monitor the performance of objectives of the APRC CRP insurance bill.

²⁴ ACCC fact sheet 13 Sept 2022

²⁵ Australian Government media publication 3.12.2021 - Reinsurance pool for cyclones and related flood damage Improving insurance affordability for northern Australia – Schedule-A Property Types

7. Report on all detected insurance supply breaches of regulatory, code of conduct, or consumer rights, ie monitoring to see if the NA insurance supply system works as designed by the ATO, ASIC, APRA and BCCM regulators.
8. Create new a property building insurance data analysis algorithm as an ACCC-M-IP by-product to future proof the CRP program.
9. Ascertain the natural disaster claims resilience attributes of the ten²⁶ property (building) types and postcodes to determine best building type resilience and to influence future property mitigation design outcomes.
10. Monitor costs of claims for gold plated contractors and silver service administration fees.
11. Monitor costs of procurement, ie Policy costs with visible natural disasters loading, admin fees, non-natural disaster cost components and profit portions.
12. Monitor costs of procurement as a normalised ratio to the value of the property liability being insured.
13. Detail how the unaffordable insured can participate in the CRP program? (An APP?)
14. Publish insurers when signing on
15. Publish the insured who have procured a CRP policy
16. Publish a CRP product disclosure document (PDS) for the home insured paying consumers.
17. Monitor insurers on how much they markup the CRP products to the insured.
18. Verify all purported insurance risks as claimed and outlined in policies.
19. Validate what natural disaster risks have changed and how such risks in changing have caused the insurance pricings to change.
20. Validate the insurers claim the NA and NQ are prone to more natural disasters than ROA.
21. Monitor the BCCM strata insurance regulator for consumer failures causing regional economic damage to the NQ strata insured. BCCM mandatory insurance regulations currently regulate the strata insured but not the insurance providers.
22. Post code detail and monitor the life cycle cash flows and effectiveness of GST (10%), Stamp Duties (9%) and Sales Commission (20%) that are imposed on the insured. This 39% sales impost is a huge domestic burden and massive takeaway economy killer for NQ.
23. Validate the home insurance affordability procurement formulae. Where 0.1% of the property sum insured liability value forms the ROA procurement policy tax invoiced value. This 0.1% value is empirically proven as stable for the last twelve years²⁷ for non-cyclonic ROA strata. Monitoring NA will now establish if the NA strata procurement affordability factor has yet reached ten times the ROA value yet? (ie 1.0% of the strata property sum insured value)
24. Monitor a selected control sample of some random 1,000 ROA, non-NA insured property types pa to form a baseline comparison data set to test the CRP performances and effectiveness deliverables as they evolve.

²⁶ Australian Government media publication 3.12.2021 - Reinsurance pool for cyclones and related flood damage Improving insurance affordability for northern Australia – Schedule-A Eligible Property Types

²⁷ ACCC NAII page- 52 Figure 3.33

Legacy:

The 2017-2019 ACCC Northern Australia Insurance Inquiry (NAII) final report had data credibility issues as insurance data was not verified nor balanced with consumer tax invoiced “real” affordability evidenced data. Nor were the natural disaster purported risks verified nor compared. Sadly, that NAII puffery report now enters federal legend status and is cited as a foundation document to the ARPC-CRP legislation 2022.

Our Queensland government also disliked the NAII report. They have not addressed²⁸ nor actioned any of the NAII five state specific recommendations to repair and improve the insurance crisis damaged lives of her 90,000 NQ strata residents.

Our new 2022 ACCC-M, we believe must proceed protecting the CRP consumer affordability interests and not the insurers invisible profit interests (isn't that APRA's job?). It is the NA property insured who are affordability complaining not the insurers. Our ACCC-M, once in position, has enough budget and time to verify all the above claims and expectations. All ACCC-M CRP performance and effectiveness information should come from the insured consumer “paid” tax invoices as the pure data source this time.

APRA Pandora's Box

The Money:

The ICA report the last major NQ natural cyclone disaster was in 2017²⁹. Cyclone Debbie cost NQ strata claims \$12.7 million that year³⁰. Since then, the NA strata insured are invoiced around \$60 million per year and climbing, the cyclone risks have not changed yet the strata insurance bill still increases, now to a level, we must ask where is all this accumulated money? Ie, 5 years, \$300 million? For the insured NA consumers only our prudential protector APRA may know, and may know is there enough accumulated strata cyclone money now? can premiums come down now? are the NA strata becoming over insured? Our ACCC-M now have something more to monitor!

The Federal Treasury proclaim there are 880,000 eligible CRP properties policies. If the CRP objectives can deliver \$1,000 savings per policy pa, then an incredible \$880 million per year of community sourced funds become available and can be repurposed for the economic the benefit of NA. Under the present insurance crisis, this huge funding amount is currently insurance stripped from the NA economy every year.

Value for Money: If the CRP does delivers property insurance affordability. Many of the 86,000 uninsured homes of NA could be enticed to insure and thus further reduce government natural disaster recovery cost liabilities and boost product sales and profits for the incumbent insurance companies.

²⁸ Qld Parliament - Question on Notice QON-799 – August 2022

²⁹ 2021 Cyclone Seroja WA - strata claims estimated at \$12 million (3%) of the total \$399 million claims event.

³⁰ ACCC-NAII page-411

Visibility and Resilience:

If our regulators do not know then how can our Members of Parliament be informed?

The Australian Prudential Regulation Authority (APRA) along with the Queensland Treasury³¹ have no post code visibility of where the premiums and GST and Stamp Duty components of home insurance come from, let alone what class of building type the tax revenue is sourced from. Both parties collect only aggregated data and not granular data about the insurance harvest behaviours in both their national and state economies. We believe neither have any government economic derived data on the actual size and liabilities of the NA and NQ property insured markets.

Hopefully now the ACCC-M can drill down and monitor the NA ten³² insurances property types as granular data sets featuring the property (building) types calibrated with risks, premiums, liabilities, costs and claims and post codes.

This emerging ACCC-M-IP data set has potential to yield valuable resilience data on best building types for natural disaster survival and lead onto data-based mitigation designs and improved future proofing natural disaster recovery outcomes, all based on verified facts obtained by the ACCC-M campaign, a modernised meaningful task beyond what our APRA can do now.

Mitigation – Risk Transfer

The CRP, the pool will offer discounts for policies that cover properties that have undertaken cyclone and flood mitigation. Additionally, the ARPC will collect data through the pool that will help the Government to plan its response to natural disasters”³³

In conjunction with the CRP rollout, *the Government is also announcing a plan³⁴ to specifically reduce insurance costs for strata properties, by committing \$40 million for the North Queensland Strata Title Resilience Pilot Program, to start in 2022.* – is this promise still delayed? NQ strata remain very interested and would consider dollar for dollar mutual mitigation funding arrangements to get access to this pilot program before we miss another cyclone season.

The SCA³⁵ contracted Deakin University to analyse 165,000 strata insurance premiums from 2016-2020. Their most notable discovery was the 28% decrease in strata claims in Queensland, now saving some \$40 million a year due to the fact insurers are transferring property risks back to the insured under the guise of “imposed excess” and “special excess” manipulations. The SCA report confirmed strata insurance prices have not come down under these unconscionable risk transfer practises.

The insurance behaviour of selling “stitch up” non-negotiable insurance policy “Special Excess” and “Imposed Excess” risk transfers products is creating an expanding “self-Insured” strata club in NQ

³¹ Qld Parliament Question on Notice #234 reports the Qld Office of State revenue do not require insurers to disclosure where the money comes from.

³² Australian Government media publication 3.12.2021 - Reinsurance pool for cyclones and related flood damage Improving insurance affordability for northern Australia – Schedule-A Eligible Property Types

³³ Australian Government publication 3/12/21 – Reinsurance pool for cyclones and related flood damage.

³⁴ Embargoed - 3/5/2021 Federal press release – More affordable access to insurance for Northern Australians.

³⁵ SCA - Strata Communities Australia - Strata managers lobby group 226 page report Data driven holistic understanding of strata insurance in Australia and New Zealand 7/9/2021.

which does not reduce strata insurance pricing but does dilute the NA disaster event recovery capabilities. Why the BCCM tolerate this phoney self-insurance risk transfer is a mystery?

The ARPC announced the federal government will incur the CRP reinsurance risks transfers. This should enable insurers to reduce the costs of premiums as their CRP product sales will now be monitored.

In Townsville, mitigation is claimed to be a form of insurers³⁶ hoax. The ACCC-M will discover this to be true if they discover insurance sales commissions do dwarf and detriment mitigation funding in NQ.

Consumer Comfort:

The ARPC is covering the cost of claims from 1 July 2022 to 30 June 2025³⁷, the pool will cover all of the cost of eligible cyclone and related flood damage claims above the policyholder excess to support insurer transition and maximise the potential premium reductions through the pool. We need the insurers to move first, to offer the strata insured access to this ARPC unique offer as it only lasts for three cyclone seasons. Hopefully the ACCC-M is now monitoring this reluctance of delivering this benefit to the insured.

The RIS³⁸ states "As administrator of the (CRP) scheme, the ARPC would hold considerable ongoing responsibility for ensuring that community expectations are met and that the pool is managed sustainably. Arrangements for the pool's initial and ongoing evaluation must be fit for purpose and apply an adequate level of scrutiny to the scheme. Nice!

TLOG has recently opened conversations with the ARPC-Terrorism branch about our view of poor consumer visibility of how insurers sell APRC reinsurance flavoured products to large strata buildings without a Product Disclosure Statement (PDS). Nor do they provide full pricing tax invoice disclosures for terrorist insurance procurement at consumer level. The ARPC-CRP product PDS and sales pricing disclosures we trust will be much more visible to the property consumers who pays for their new CRP policy.

We believe the ACCC-M will detect that all the NA insurance coterie proclamations and inquiry claims of the past decade have not been delivered, if anything they may have stifled NA property insurance competition and prices by design for a decade.

The ACCC-M should identify new market room for other innovative insurance players such as mutual insurance, self-insurance and repaired BCCM legislative insurances in order to modernise and maximise the CRP objectives. The NA insurance economy is due for a forensic operation and performance inspection³⁹ and a modernistic make over in order to deliver and future proof the NA regional economies. The CRP is the first step.

³⁶ ICA 1/11/2019 publication = Who should fund the mitigation of natural hazards?

³⁷ 3/12/21 Australian Government publication - Reinsurance pool for cyclones and related flood damage

³⁸ RIS = Cyclone and Flooding related reinsurance pool – Regulation Impact Statement - Department of Treasury Feb 2022

³⁹ Qld, NSW, WA and Victoria state governments have all recently conducted Casino performance and behaviour inquiries.

Conclusion:

This submission is a tad prescriptive yet details our interest in the CRP performing well. Getting only one report per year from the ACCC-M is way too distant to check and correct the annualised CRP objectives and performance results.

We now wait and see how the CRP rolls out. Our expectations align with the government CRP designed promises⁴⁰ that significant reduction in insurance prices will occur unless again thwarted by the insurance cabal of NA.

We trust the ARPC-CRP project delivers on its promises. We have reservations, as only a true forensic overhaul of the national home insurance objectives and relevant policy repurposing will deliver the same equal insurance risk formulae and thus affordability to all Australian homes.

With the ACCC-M monitoring work, our NA insured may be accepted to re-join the national property insurance equation as an equal and cease being treated as a folklore and fiction risk outcast.

Again, many thanks for the opportunity here to address this inquiry with our submission. We trust this ARPC-CRP-ACCC-M project can fix the NA insurance crisis.

Yours faithfully

Andrew Turnour
FIEAust.CPEng.NER.APEC Engineer IntPE(Aus).RPEQ.ASME.ret
Spokesperson - Townsville Lot Owners Group⁴¹

Attachment-A

TLOG Observation-7:	Australian Strata Economics.
TLOG Observation-20:	Queensland Community Titles Scheme Statistics.
TLOG Observation-42:	NQ Cyclone Reinsurance Tax Invoice Visibility.
TLOG Observation-44	The Rockhampton Line.
TLOG Observation-56:	The Australian Cyclone Reinsurance Pool Promises.
TLOG Observation-101:	NQ Home Insurance Trauma Evidence.

40 7/2/2022 – Media Release. Prime Minister Scott Morrison said the establishment of a reinsurance pool would deliver on the Government’s commitment to maximizing northern Australia’s potential and to ensure Australians in cyclone-prone areas have access to affordable insurance.

⁴¹ *Strata Consumer Advocate. TSV.LOG - Townsville Lot Owners Group. Strata Comparisons®™ Strata Data®™ A volunteer community service group who have and continue to collect and analyse \$billions of actual strata insured liabilities and their insurance tax invoices, policies and volumes of Insurance Inquiry reports and studies to provide “real” verifiable consumer evidence in facts, figures and correspondences to help our NQ Strata Consumers and Regulators and Politicians improve their strata insurance arguments, actions and affordability.*