



Joint Select Committee on Northern Australia

Inquiry into the Cyclone and Cyclone-related
Flooding Reinsurance Pool

Summary

I've included:

- About the author
- Background to the new reinsurance pool
- A simple explanation of reinsurance
- Concerns I raised about the project
- Concerns I still have
- 3 reasons why the insurance companies are not yet utilising the new reinsurance pool

About the author

I am a partly retired IT Consultant with a background in financial services and insurance systems.

My first job was Lloyds of London, my last contract was with Zurich Insurance in Sydney. I have over 30 years in the insurance industry within Information Technology.

Background to the new reinsurance pool

After TC Yasi in 2011, insurance premiums in the Whitsunday area, 1-2 days drive south of the epicentre, increase by 200-600%.

I was living in a strata building in Airlie Beach consisting of 25 apartments, spread over 7 separate buildings with an insurance premium of \$25,000. This increased to \$81,000 overnight with **no warning and no claims**. Our Treasurer had a breakdown because this increase had not been budgeted for, we did not have the time for an EGM to raise extra funds, and we had to take out a premium loan which added an extra \$6,000 to the cost.

I took over as Treasurer and stayed as Treasurer for 7 years.

I wrote my first email on the insurance crisis and our market failure on the 4th June 2011. The situation has only increased in its severity across the whole of Northern Australia. Even Allianz stated in one of their submissions that 'average premiums were 2.5 times more than elsewhere but that some homeowners faced premiums of **ten or fifteen times those of other Australians**'. I can put you in direct contact with an insurance broker who has information showing up to 20 times the premiums.

How can you begin to expand Northern Australia without insurance coverage?

In the Townsville Bulletin Real Estate magazine dated **Saturday 29th October 2022**, the Director of a national property firm, MCG Quantity Surveyors, Mr Sadlier said research in 2020 suggested 83% of Australians were underinsured. In 2021 the Australian Bureau of Statistics noted 2.44 million Australian households had no house and contents insurance (23% of all Australian homes). Mr Sadlier said he believed over 90% of properties in Australia "are not carrying adequate insurance".

"Insurance is not a luxury, it is a necessity and it HAS to be affordable."

These excessive increases in insurance premiums over the years have had a devastating effect on areas already affected by the downturn in the resources sector, COVID and subsequent drop in tourism (which is looking better this year), and caused mental, physical health and financial difficulties. They've led to Mortgagee in possession sales, a major reduction in property values, and bankruptcy. Units in Northern Australia are unsaleable due to the cost of their levies.

The pain of seeing your home gone, not being able to pay your bills, and feeling abandoned cannot be calculated.

I know how people feel, as not only do they talk to me, I've been there myself. My 79 year old (at the time) husband and I sold our apartment in Airlie Beach in 2018 well under valuation amount, walked away and started

again in a house in Townsville. People should not have to do that but when you're paying nearly \$400 a week for a unit with no mortgage something has to give.

NOTE: the insurance for that complex now stands at \$140,000 approx. and it will NOT be covered by the new reinsurance pool as it is defined as strata accommodation model, not residential, replacement value of \$15M approx. and not 80% owner occupied.

So, I've failed.

Ben Kingsberry of Harcourts Townsville reported a while back his Body Corporate Management company had complexes currently without insurance, in breach of legislation.

I know more than 40 complexes have gone to the QLD Commissioner for Body Corporate and Community Management to ask to be allowed to not insure for full replacement value, stipulated by Qld legislation, and have been allowed to legally underinsure.

Those that have insurance are being charged horrendous rates. Prior to 2011 \$800 - \$1000 per unit per year was the norm. Now:

- \$4,000-\$5,000 per unit per year is not uncommon
- \$5,000-\$6,000 is not unusual
- Two complexes, one in Townsville and the other in Mackay are looking at \$7000-\$8000 per unit
- One complex in Airlie Beach is currently paying \$11,000+ per unit per year
- Another on Hamilton Island is reported as paying over \$20,000.00-\$30,000 per unit per year in insurance alone, not levies. I haven't seen this policy so this is hearsay only

And just to make matters worse, named cyclone excesses are up to \$400,000.00, and some above.

Without insurance, affordable insurance, you cannot encourage older people to move into apartments leaving their homes for families to take up, you increase rents putting a strain on lower income people, you deter investors from investing, you stop developers, you stop people moving north, you prevent expansion.

Without insurance, affordable insurance, you cannot open Northern Australia and it cannot flourish and grow.

We needed a solution to the insurance crisis and the reinsurance pool was the solution to be selected.

A simple explanation of reinsurance

Cyclone and Cyclone-related Flooding Reinsurance Pool

The legislation for this Government backed \$10B reinsurance pool was passed by the Senate on 30th March and became available for use by insurance companies on 1st July 2022 – without the rates being finalised until October 2022.

I'm going to try, briefly, to explain as a consumer what I think reinsurance actually is.

Insurance companies insure themselves against massive losses, this is reinsurance - insurance for insurance companies.

They may decide to accept losses of, say, \$100M per event and then insure themselves against bigger losses. In the case of a large event the excess over the agreed loss is then claimed from the reinsurer. Reinsurers are mostly, if not all, located internationally. They calculate their premiums for insurance companies based on a region of the world and Australia falls into the Asia Pacific region. This means disasters in other countries and not just Australia form part of their premium calculation. Since there have been tsunamis, earthquakes, floods, cyclones etc in the Asia Pacific region, over the years the reinsurance costs to insurance companies have risen

massively, or that's what insurance companies tell us, and they pass those increases onto their clients as increased premiums.

According to Treasury (regardless of who is in Government) having access to this Government backed pool will, in theory, give our insurance companies access to lower reinsurance costs as the Government will charge less in premiums than the normal reinsurer. I do not know the details as I have not seen the proposed model.

Since insurance companies have existing reinsurance contracts, they will not be in a position to access the new pool until their existing reinsurance contracts come up for renewal. So, until the insurance company gets reduced costs, they can't be passed on to the clients.

Premiums were never going to suddenly plunge on 1st July 2022 and expectations were not handled well by the Insurance Council of Australia, but as insurance companies start to use the pool premiums should reduce, and the ACCC has formed a new Insurance Monitoring Branch to ensure any savings are passed onto policy holders.

Concerns I raised about the project

I was involved in the Treasury roundtable meetings as Consumer Representative on the Consultant Panel.

These are the thoughts and concerns I had at the time re the project and I was certain that if some, if not all, of these items were not addressed then the Government could have a failed project on their hands, through no fault of their own but through the fault of the political system.

This happened before with the Northern Australian Insurance Premium Taskforce (NAIP) in 2015 where Treasury were supposed to decide whether we would get a Reinsurance Pool or a Mutual. Since there was no defined scope and no defined expected outcome no-one could say the project was a failure when Treasury decided neither would work. Treasury do not take, nor issue, minutes of any meeting, I did.

I fully realise Federal Government does not 'sweat the small stuff' and once a project is announced they hand everything over to Treasury for processing. That is how the systems works.

However, it seems clear the reinsurance Treasury team had no idea what the problem was, who it affected, why we were in this situation and whether a Reinsurance Pool would solve a problem they didn't even understand. No-one from Treasury lives in Northern Australia and no-one from the original NAIP Taskforce was included in the Reinsurance team, I asked.

It was clear from the roundtable held in Townsville the Australian Reinsurance Pool Corporation (ARPC) was not aware high-risk properties were not necessarily the properties with the highest premiums, so they too were not aware of the background and the facts. They seemed to be surprised at the magnitude of the problem.

Then we had a Technical Panel, none of which lived in Northern Australia, who had to sign a confidentiality agreement. The Consultant Panel had very little idea who was on the Tech Panel, no contact with them, no discussion with them, no feedback from them.

- This is hardly transparency
- We confirmed no representative of insurance companies not members of the ICA had been included on the Tech Panel
- The Consultant Panel had no idea what the Technical Panel was covering, and wondered if the Tech Panel knew what the Consultant Panel was covering
- The left hand did not know what the right hand was doing, and I think this is the fault of Treasury
- We had no idea if the questions the Consultant Panel was being asked to discuss came from Treasury or the Technical Panel

Simple, or I thought so, questions referred to Treasury had substantial answers which said nothing and left you feeling as if you were in an episode of Yes Minister. This was not conducive to a good working relationship. It was conducive to a disaster waiting to happen.

Once again there was no clearly defined scope. 'Home and contents, strata, and small business' is not a scope. We had no idea as to which types of policy would be covered by the pool and, more importantly, we had little idea as to what policies would NOT be covered by the pool.

'Home and contents' changed to 'residential' on a regular basis but, this did not apply to strata where (in Qld) there are at least five models, only one of them being residential (as I pointed out to Treasury).

Also, strata means different things depending which State or Territory you are in AND not all complexes fall under any definition of strata. E.g. Hamilton Island buildings do not own the land they are built on and fall under the Corporation Act. This is actually irrelevant to the current reinsurance pool as buildings used for short-stay (even if owners live in them) are not included in the reinsurance pool as currently defined because they invariably have a replacement value of >\$5M and less than 80% owner occupied.

The majority of the complexes in the Whitsunday area, including Hamilton Island will NOT be covered by this reinsurance pool.

A completely simple definition should have been: a property one can legally live in which cannot be moved.

This includes all strata but misses out marine and mobile homes in caravan parks. The latter might come under small business anyway. However, marine insurance is still shot to pieces.

Nor did this project have a goal in premium reductions to aim for.

Concerns I still have

1. Consumers got a commitment from the former assistant Treasurer, Hon Michael Sukkar MP, for marine insurance to be considered for inclusion at 1st July 2023. Will it be?
2. Consumers got a commitment from the former assistant Treasurer, Hon Michael Sukkar MP, for strata accommodation models to be considered for inclusion at 1st July 2023. Will they be? Without this commitment I would not have been at the launch in Townsville
3. Although Government changes, bureaucrats do not. The figures given by Treasury to the previous Government were the same as those given to the present Government (or should have been). I completely fail to understand how 2 Governments can take the same figures and come up with totally different estimates of potential savings. I am presuming the former were over optimistic and the later overly pessimistic and the result will be somewhere in the middle
4. Comments of 10% reduction in premiums will be a waste of time and money due to the fact when your premium has increased by 500%+ then a 10% reduction is laughable. 25-30% reductions are more reasonable but still negatable when it comes to the increases which have been experienced
5. The 3 year ACCC report into insurance affordability completely missed out Industry Special Risk policies (ISRs) which are the only option for most large complexes. I did point this out on more than one occasion, and even after the report had been finalised. This ACCC report was flawed. These types of policies are not normally issued by 'normal' insurance companies, they are issued by specialist insurance companies such as Chubb. Are these specialist companies included in the legislation? Will ISR policies for large residential complexes be covered by the pool?
6. The new ACCC Insurance Monitoring Branch has no-one on it that lives in Northern Australia, or is based in Northern Australia. Therefore, the new ACCC Insurance Monitoring Branch has no-one on it that has experienced the insurance crisis or understands why the Branch has been formed. I think this is a major concern
7. According to Michael Eady, General Manager ACCC Insurance Monitoring Branch Infrastructure Division, the ACCC Insurance Monitoring Branch has very little insurance knowledge amongst the team. It seems they don't need it as a prerequisite for positions on the team. As a result, their insurance knowledge is sadly lacking. I think this is a major concern for the Government
8. The current legislation states it is mandatory for insurance companies to use the new reinsurance pool, with the exception of Lloyds of London. I totally believe this needs to be changed so IF an insurer can prove they can get cheaper reinsurance from another source they can opt out. Otherwise, the premiums from that insurer will increase, not decrease, and that is going to be difficult to explain to consumers. I believe the number of companies involved to be minimal but I know at least 1 exists

3 reasons why the insurance companies are not yet utilising the new reinsurance pool

As I have said, my entire IT career has been in the insurance and life assurance industry working on their computer systems.

There're 3 things to consider:

1. The final rates were not received by the insurers until October 2022
2. Contract negotiation - An insurance company may start to negotiate their reinsurance terms 3 months+ ahead of the contract date. Why? Well, most people with a normal insurance policy start to look for quotes 4 weeks out from renewal. Insurers have to consider any changes to their reinsurance terms, which would be normal as risk changes, so they might need to change their rating tables (as how a property is risk rated) due to some properties being declared as higher risk (such as for flooding) and some properties may be declared as lower risk (if levies have been built in an area). Most of their computer systems use tables for this so it's no big deal. However, there may be other changes as to the level of the reinsurance negotiated which may mean changes to their reinsurance and claims systems. All these changes have to be made, tested and implemented. It takes time, I know. Even a company whose reinsurance contract comes up in November would have started their negotiations with their existing reinsurer months ago, its too late to change
3. System changes - The new cyclone reinsurance pool means the insurer's computer systems will need their rating tables changed to take into account that although a property may have a high risk of cyclone damage, the cost to the insurer of a claim will be less due to the new pool. Their claims systems will have to change to take into account the need to claim from 2 different entities should a reinsurance claim be required depending on the definition of the disaster. Their reinsurance systems will have to be changed to take into account the different reinsurance costs for insurance AND I'm told its these rates which they've only just received

You can't implement something like this without changes to the computer systems, and changes take time as they have to be tested before implementation.

As I understand it, the pool may have been ready on 1st July for use (without confirmed rates) but when insurance companies switch to using it will depend on when their existing reinsurance contracts are up and how long it takes them to implement the changes to their computer systems.