



Building a Resilient Future: Comprehensive
Solutions for Affordable and Accessible Insurance



June 2024: Australian Consumers Insurance Lobby Inc

About Us

We are a leading consumer advocacy group dedicated to addressing pressing consumer issues associated with general insurance. Our organisation is committed to minimising the cost of living pressures by tackling the challenges of affordability and availability of insurance. We firmly believe that all Australians should have access to affordable and comprehensive insurance coverage that protects their interests and financial well-being.

In addition to advocating on the crucial issue of affordability and availability of insurance, we proactively tackle practices by industry stakeholders that are deemed detrimental to consumers. We closely monitor and challenge unfair practices, and any actions that undermine the rights and interests of policyholders. Our goal is to create a fair and transparent insurance market where consumers are treated with respect and their rights are upheld.

Our Mission

At ACIL, our unwavering commitment revolves around three fundamental missions:



Advocate for affordable and accessible insurance.



Protect consumer rights and interests.



Influence positive change in the insurance industry.

Meet the Team

Our committee boasts a balanced mix of consumer representatives, who provide crucial insights into consumer needs, with consumer-centric insurance professionals, ensuring a comprehensive understanding of the insurance industry, to effectively advocate for consumer interests.

Insurance Professionals



Tyrone Shandiman
Chairperson



Eva Jones
Secretary



Peter Marer
General Committee Member

Consumer Representatives



Bradley von Xanten
Treasurer



Pamela Farrell
General Committee Member



Dawn Romanella
General Committee Member

Conflicts of Interest Policy and Declared Conflicts of Interest [click here](#)

Acknowledgement

We extend our sincere appreciation retired insurance broker John Devaney, for his invaluable contributions to this submission. His dedicated advocacy of consumer issues have enriched our understanding and recommendations, shedding light on critical issues in this submission.

Ensuring Affordable and Accessible Insurance: A Comprehensive Approach

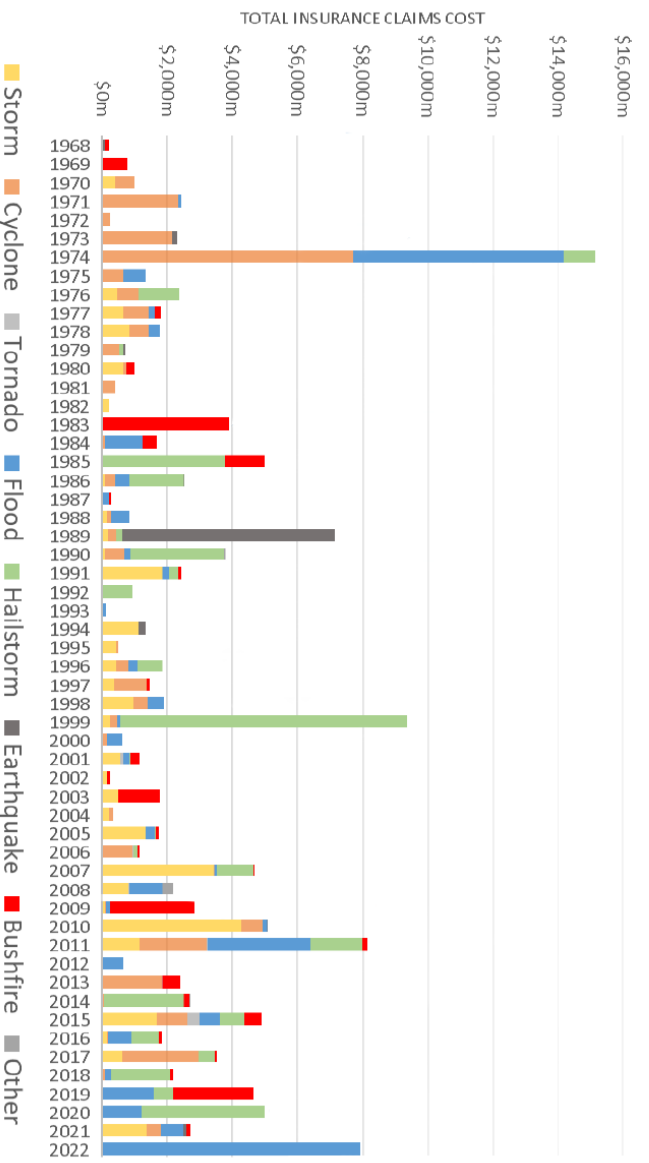
The affordability and accessibility of insurance in the face of increasing climate risks and natural disasters is a pressing concern for consumers and the insurance industry alike. As the Australian Consumers Insurance Lobby Inc. (ACIL), we are committed to advocating for holistic solutions that ensure equitable access to insurance for all Australians. This submission explores a variety of strategies to address these challenges, including mitigation and resilience, improving reinsurance pool designs, enhancing building standards, integrating private market participation, and promoting effective government policies. Our aim is to outline a comprehensive approach that balances industry viability with consumer protection, ultimately ensuring that no Australian is left vulnerable due to prohibitive insurance costs. Through these proposed measures, we seek to foster a more resilient and inclusive insurance market that serves the needs of all citizens.

ACIL and Climate Change: Our Position

At ACIL, our primary focus is on advocating for consumer interests within the insurance sector, and not on the broader climate change debate, which falls outside our direct remit. However, we acknowledge that insurers and reinsurers recognise the science behind climate change, and the mounting data concerning major claims stemming from climate catastrophes clearly indicates an upward trend in weather-related events. It is undeniable that these increasing weather-related losses warrant serious discussion and consideration within our industry, to ensure that insurance remains both accessible and affordable for consumers facing these evolving risks.

Total Industry Catastrophe Claims Normalised in 2022 Values

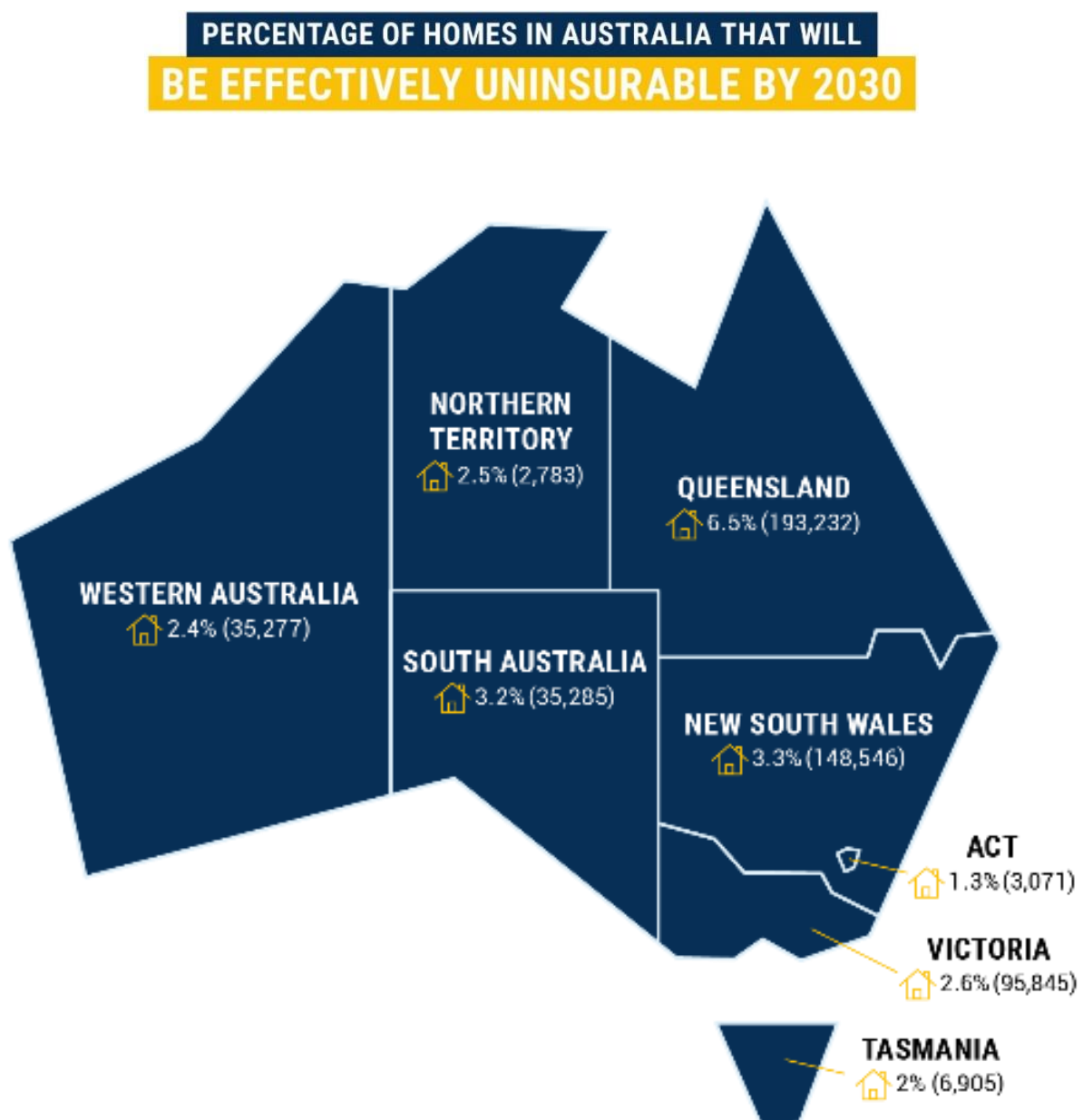
TOTAL INDUSTRY CLAIMS COST IN NORMALISED 2022 VALUES



Alarming Data on Climate Change Impacting Insurance

Reports and analyses from organisations more qualified to evaluate the impacts of climate change on insurance sectors have unequivocally highlighted a significant problem for consumers. We urge both Federal and State Governments to consider the findings detailed in these reports seriously. The data presented is alarming and calls for immediate and concerted action to address these escalating risks which threaten both the affordability and availability of insurance for consumers across various regions.

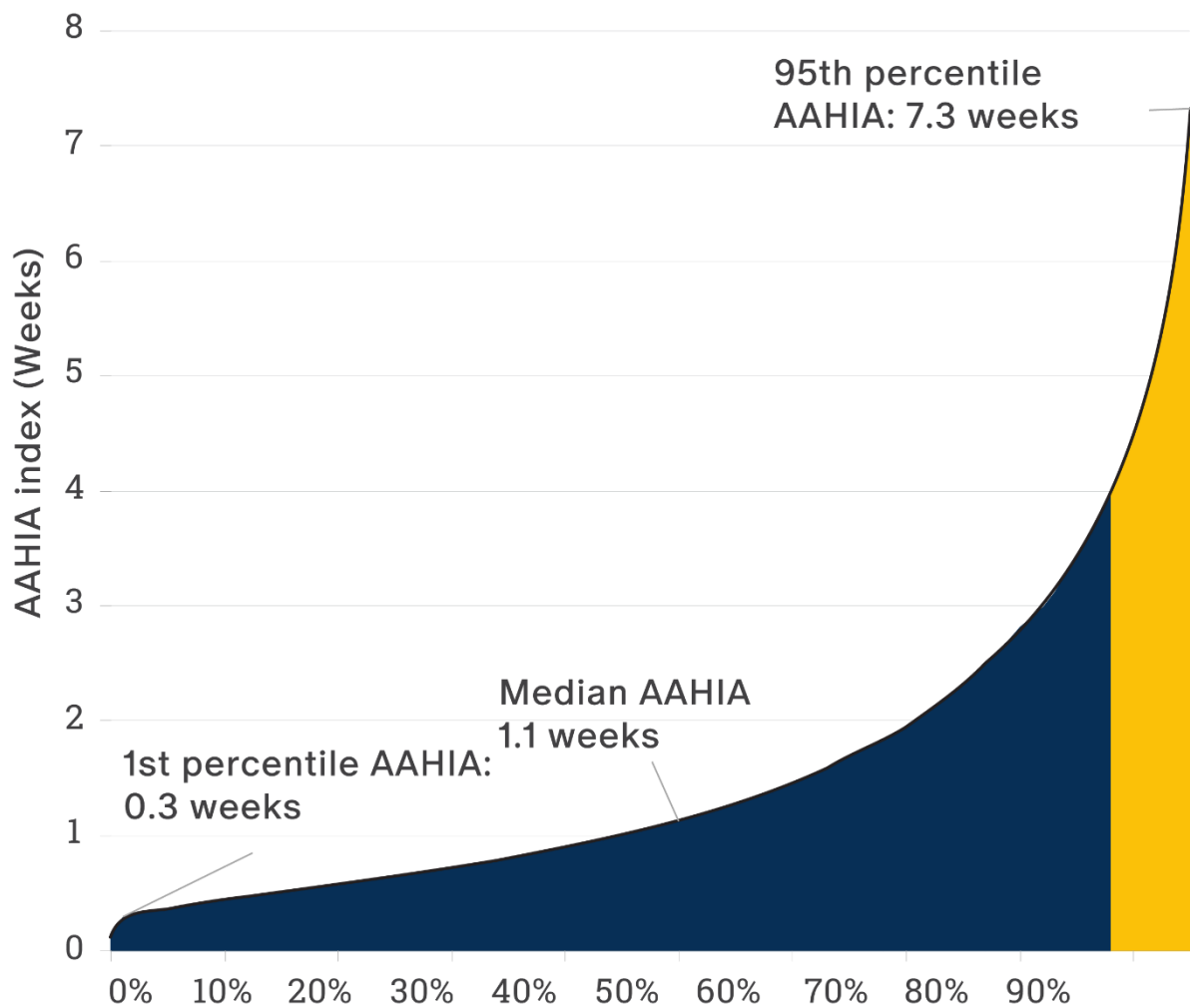
Climate Council Report: Uninsurable Nation: Australia's Most Climate-Vulnerable Places



Actuaries Institute: August 2023 Home Insurance Affordability Update

Insurance Affordability Stress

12% of Households Now Spend
Four Weeks' Income on Home Insurance





Unveiling the True Picture: Challenging Averages in Insurance Affordability

When analysing information and data on insurance affordability, it is essential to move beyond averages, as they can obscure the true extent of the problem. Averages often downplay the severity of affordability issues by smoothing out the extremes. The insurance industry might leverage average figures to minimise the perceived impact, but this approach fails to account for the significant struggles faced by those at the fringes. For example, while it might seem acceptable to some that a small percentage of the market is unable to afford or obtain insurance, ACIL argues that this statistic is misleading. It overlooks consumers who have been forced out of the market entirely due to exorbitant premiums. These individuals, who are no longer counted in standard data sets, represent a critical gap in the analysis. By focusing solely on averages, we risk ignoring the substantial financial distress experienced by those facing the highest costs. To truly understand and address the issue of insurance affordability, it is imperative to consider the extremes and the people most affected. This approach ensures that policies and solutions are inclusive, targeting the real needs of all consumers, not just the majority.

Role of Insurers in Enhancing Insurance Accessibility and Affordability

The insurance industry is facing growing scrutiny for its handling of affordability and availability issues. Despite clear signs of market failures and consumer hardships, insurers have consistently resisted taking proactive measures and implementing innovative solutions. This reluctance has led to significant dissatisfaction among consumers and calls for greater accountability and action. The following points highlight key areas where the industry's approach has been lacking and underscore the urgent need for meaningful change.



Denial of Market Failures: Insurers are quick to dismiss any suggestions of market failings in the insurance industry. This was particularly evident during the 2020 Northern Australia Insurance Inquiry, where insurers' initial response involved significantly downplaying the affordability issues consumers were experiencing. At that time, consumers in some circumstances were facing premiums that were ten to twenty times higher than other parts of Australia, and in certain cases, they were unable to obtain insurance at all. This stark discrepancy highlighted a significant gap between insurer perceptions and consumer realities.



Blame Shifting and Scapegoating: Insurers frequently shift blame and point fingers, often using the government as a scapegoat. This behaviour is particularly noticeable during government inquiries, where insurers deflect responsibility for consumer challenges. However, when the government proposes measures to address these consumer issues, insurers often resist these solutions. This contradictory stance not only complicates efforts to improve the situation but also undermines trust and delays meaningful progress in making insurance more accessible and affordable.



Perception of Passivity and Neglect: There is a prevailing perception that insurers are burying their heads in the sand, showing too much passivity in addressing critical issues. Consumers rightfully expect insurers to take decisive actions once market problems are identified. ACIL believes insurers have an ethical obligation to ensure insurance is affordable and available, and when they can't meet this mandate, they should refer concerns to the government. Insurers have demonstrated reluctance to do so.



Is Mitigation Truly the Silver Bullet?: Insurers frequently cite mitigation and resilience as the definitive solutions to a failing insurance market. However, they often overlook the significant costs associated with these measures. If these strategies are truly beneficial, one might question why insurers have not been more proactive in funding these costs themselves, especially considering that they stand to gain from reduced claims expenses. ACIL is concerned that insurers have overly relied on government-funded mitigation, preferring this route as it aligns closely with their commercial interests.



Inaction and the Need for Out-of-the-Box Solutions: The insurance industry has failed to be proactive in addressing affordability and availability issues. Instead of waiting for crises, insurers could adopt out-of-the-box solutions. For instance, the Insurance Council of Australia could get agreement from its members to contribute 1% of all home premiums to a mitigation fund, generating \$100 million annually for private mitigation measures. The fund could also provide interest-free loans to consumers facing insurance distress due to defects or major maintenance issues, helping them secure necessary repairs and maintain insurability. Additionally, the industry could establish an underwriting agency, supported by all insurers, to cover clients who cannot obtain or afford insurance, using a small portion of premiums from certain classes of insurance or profits to subsidise this initiative. While these measures might incur some costs for insurers, which would likely be passed on to consumers, and may not be universally supported as the best solutions, the long-term damage from inaction is far greater. Insurers must ask themselves if facing two government inquiries into the industry in one year represents a better commercial outcome – ACIL would argue it does not.

Unfortunately, there appears to be an excessive focus on profitability, overshadowing the equally important need to ensure the insurance market functions effectively for all stakeholders. This imbalance not only frustrates consumers but also jeopardises the integrity of the insurance sector. It is time for insurers to get real. When premiums increase due to climate risk, maintaining the same profit margins on a percentage basis results in higher dollar profits for insurers. This raises the question: is the reluctance to take meaningful measures to reduce premiums driven by a focus on greater profits? ACIL certainly hopes this is merely a perception and not the reality, but the question must be asked.

Policymakers need to convey a clear message to the industry: if it fails to serve the needs of consumers adequately, government intervention will be necessary. It is essential for policymakers to recognise that insurers' proposals might be driven by their own commercial interests. Therefore, these suggestions must be scrutinised thoroughly rather than accepted at face value, ensuring that any solutions genuinely tackle the core issues of insurance affordability without undue influence from the industry. Only very recently has there been some indication of a shift in attitude by insurers. For example, Allianz has proactively called for a flood reinsurance pool, despite resistance from other insurers. ACIL urges all insurers to take decisive action to address market issues, emphasising that they must be part of the solution rather than the problem.

Yes to Free Markets, No to Market Failures

ACIL firmly supports the principles of the free market and the development of industry-driven solutions that foster healthy competition and innovation –not only do we support this, but it is also our preference. However, our commitment does not extend to endorsing a market that fails to serve the needs of consumers. We advocate for a market structure that not only promotes efficiency and growth but also ensures fairness and accessibility for all stakeholders. When the market falls short of these objectives, we believe it is not just the right, but the duty, of policymakers to intervene. This approach ensures that the market remains robust and equitable, preventing long-term failures that could harm consumers and undermine public trust in the insurance industry.

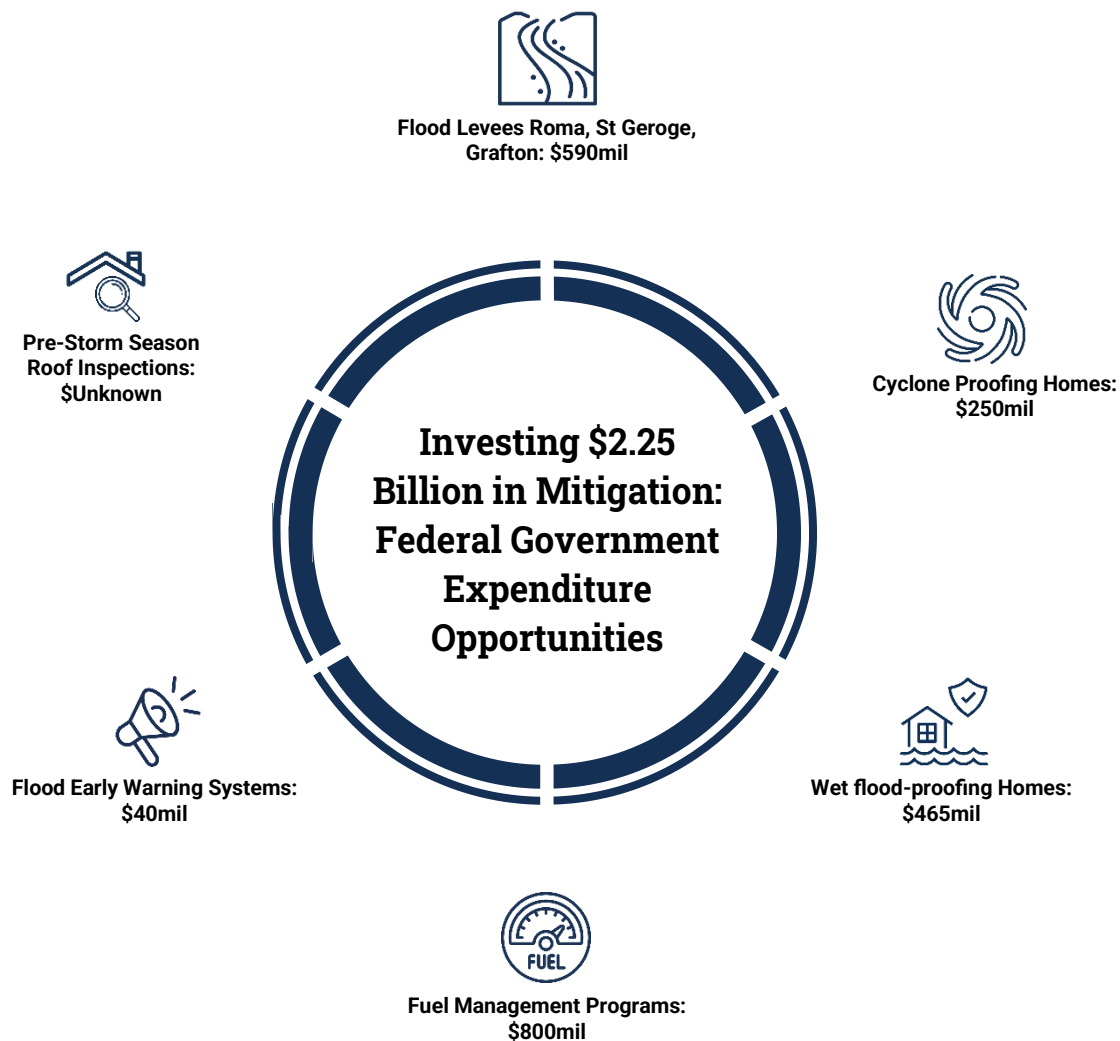
Breaking the Obsession with Risk-Address Pricing Models

The insurance industry's heavy reliance on risk-based pricing, aiming to ensure all risks are priced profitably, has resulted in significant adverse impacts on the most at-risk consumers. Australia's relatively small market size and geographic concentration of risks make it challenging to sustain a risk address pricing model for insurance. With fewer insured individuals to spread the risk, premiums in high-risk areas can become prohibitively expensive. This method, while financially sound from an insurer's perspective, neglects the broader societal responsibility to provide accessible and affordable coverage. Given these challenges, it is increasingly clear that a restructuring of how insurance premiums are calculated may be necessary. This new approach would need to balance the financial sustainability of insurance companies with the critical need to support vulnerable populations, ensuring that insurance remains a tool for enhancing societal resilience rather than a barrier to it.

Enhancing Mitigation & Resilience Efforts

Mitigation and resilience efforts are strongly supported by the insurance industry as viable solutions to enhance the affordability and availability of insurance, and ACIL wholeheartedly endorses this initiative. However, we contend that mitigation alone is insufficient to fully address the affordability issue, primarily because the costs required to achieve the necessary level of resilience can be prohibitively high. The actual cost-benefit ratio of these measures is still unclear—even insurers lack precise predictions due to the inherent unpredictability of future climate events.

A 2022 report by the Insurance Council and Finity, titled "Reaping the Rewards of Resilience," presents a compelling case for investing in mitigation. The report suggests that a \$2 billion investment (\$2.25 billion in 2024 terms) over five years to protect Australians from the impacts of cyclones, floods, bushfires, and coastal risks could result in a return on investment exceeding \$19 billion by 2050, nearly a tenfold return. This optimistic projection highlights the potential financial benefits of robust mitigation strategies, yet it also underscores the challenge of securing the necessary funding upfront.



Information from Insurance Council Reaping the Rewards of Resilience report

Government & Consumer Role

While we support government funding for mitigation measures to maximise the impact of public spending, we believe that consumers should also bear some, but not all, of the financial responsibility. This shared approach ensures that mitigation efforts are both feasible and equitable. The following strategies could facilitate this balanced financial responsibility:



Government Subsidy and Funding: Introduce a fund scheme where the government contributes a specified amount for every dollar spent on mitigation by property owners. ACIL advocates for a system where owners cover a percentage of the costs rather than the entirety. A notable example of this approach is the \$60 million North Queensland Strata Resilience Program, in which the government contributes 75% of the costs while the body corporate covers the remaining 25%. This model promotes substantial private investment in resilience measures while ensuring that the financial burden is shared.



Owner Tax Deductions: Implement tax benefits for homeowners undertaking government-approved risk mitigation measures. These deductions would incentivise householders to invest in necessary improvements, thereby enhancing the overall resilience of residential properties.



Interest-Free Loans: Provide interest-free loans specifically for mitigation efforts. This financial support would make it easier for homeowners to afford upfront costs associated with significant mitigation projects, spreading the financial burden over time without additional interest costs.

Insurers' Responsibility for Resilience and Mitigation Funding

Insurers should also bear some responsibility for funding resilience and mitigation efforts, especially since they stand to benefit significantly from such measures. Currently, insurers often rely on the government to fund these initiatives, despite their strong advocacy for mitigation as a solution to insurance affordability and availability issues. It's time for insurers to show leadership on this matter.



Shared Responsibility for Funding: Insurers should contribute to the funding of resilience measures. If resilience funding offers a 9.6 return on investment, presumably from lower claims, it stands to reason that insurers would benefit from reduced claims. While we don't advocate for insurers to cover all resilience costs, we believe they should share in the responsibility, just as consumers are expected to do.



Transparency on Financial Benefits: If mitigation and resilience are truly effective in reducing premiums as insurers claim, they should provide more detailed information on the financial benefits to consumers. For instance, asking a consumer to spend \$30,000 to retrofit a roof to save \$1,000 in premiums is not an attractive incentive. However, highlighting that a \$30,000 investment could save an insurer hundreds of thousands of dollars in potential claims may present a more compelling case for shared investment.



Long-Term Premium Savings: Insurers should offer better information on the long-term premium savings associated with mitigation measures. Instead of focusing solely on one-year savings, insurers should illustrate the cumulative savings over a ten-year period. By presenting this long-term perspective, consumers may be more inclined to invest in resilience measures, understanding the significant financial benefits over time.

Enhancing and Expanding the Federal Reinsurance Pool

The Federal Government currently operates reinsurance programs covering Terrorism and Cyclone risks. The terrorism pool has arguably served its purpose, providing terrorism coverage to Australians and having only one claim since its inception—the Lindt Café Siege. This limited number of claims indicates that the pool is achieving its purpose and the government has received a good return on its investment.

Challenges with the Cyclone Reinsurance Pool

The Cyclone Reinsurance Pool (Pool), while still in its early stages, has faced significant challenges.



Problematic Rollout: The initial rollout was problematic, with rushed legislation and hurried pool design. The Australian Reinsurance Pool Corporation (ARPC) released rates only weeks before the program's start date on July 1, 2022, leaving insurers little time to incorporate the program into their reinsurance negotiations. Many insurers joined at the last minute in December 2023 and the pool's benefits remain unclear.



Poor Premium Modelling: The Pool covers all homes and commercial properties under \$5 million across Australia for Cyclone. However, under the pool modelling, Northern regions (north of Port Macquarie on the East Coast) bear the funding burden. The program fails to consider historical events like TC119, which hit Sydney in 1950, and does not account for potential future cyclones in areas without historical precedent.



Lack of Resilience and Mitigation: The pool has not integrated a resilience and mitigation mandate, which would benefit Northern residents. While the pool is a crucial step towards resolving the affordability crisis, the government has not addressed the initial rollout's shortcomings to ensure it benefits consumers. Recent ARPC data shows some savings for consumers, but not enough to comprehensively address affordability issues.



Eligibility: Certain properties are excluded from the Cyclone Reinsurance Pool that ACIL believes should be included. These properties include marine risks, aged care facilities, farms, and strata properties with over 50% short-term accommodation. Excluding these categories leaves significant gaps in coverage, undermining the pool's effectiveness in addressing the affordability crisis comprehensively.

ACIL argues that while the Pool is a suitable solution for the cyclone-related affordability crisis, its design has flaws. We are disappointed that we are not discussing as part of this inquiry an improved version of the Pool that addresses these early issues. We urge the Federal Government to consider the shortcomings of the current Cyclone Reinsurance Pool and not abandon the idea of an expanded reinsurance pool based on the initial flawed design of the Pool. Instead, the government should refine and enhance the existing Pool to meet its intended goals. Once these improvements are made, the government can then evaluate whether expanding the pool is in the best interest of consumers.

Doubting Reinsurance Pools? Why Are So Many Countries Are Adopting Them

ACIL has sourced data from the World Forum of Catastrophe Programmes, which Australia is currently not a member of, to illustrate that advanced economies worldwide are adopting reinsurance programs to address consumer issues related to insurance. This trend highlights the effectiveness and importance of such programs in mitigating risks and ensuring affordability and accessibility for consumers.



USA Earthquake



UK Flood



France exceptional risks, natural catastrophes, terrorism



Denmark storm surge, drought, flooding



Iceland earthquakes, volcanic eruptions, avalanches, landslides, rock falls and riverine-, costal- and glacial floods



New Zealand Earthquake



Turkey Catastrophe Reinsurance Pool



Switzerland Earthquake, Fire & Natural Disasters



Spain extraordinary risk, compulsory vehicle insurance, combined agricultural insurance and liquidation of insurance companies.



Norway Natural Perils



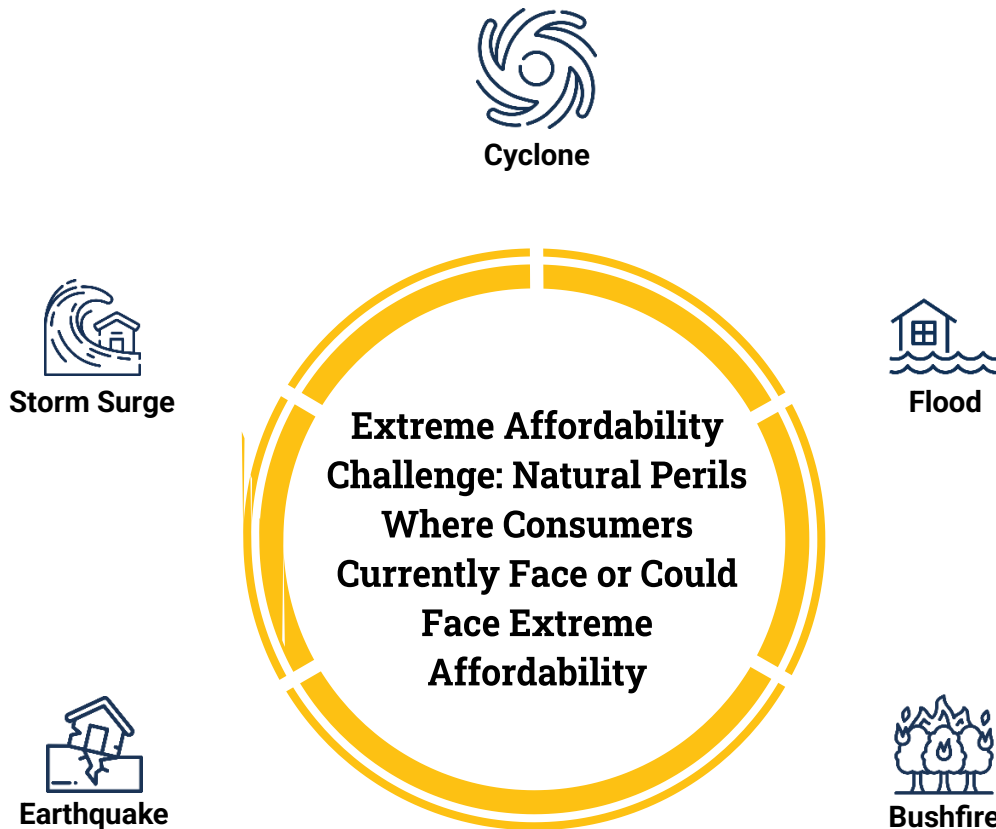
Romania Natural Disasters



Taiwan Earthquake



Caribbean Catastrophe Risk



Leveraging Catastrophe Reinsurance Pools to Solve Risk-Based Pricing Issues

While reinsurance programs have a long history across the globe, it is crucial to investigate the viability of each program by examining both their successes and failures. Rather than focusing solely on programs that work, we must also understand why some programs do not achieve their goals. By learning from the shortcomings of our own initiatives, such as the Cyclone Reinsurance Pool, as well as those of other countries, we can develop more effective strategies. This comprehensive approach allows us to adopt best practices and avoid repeating past mistakes, ultimately improving the resilience and affordability of our insurance programs.

Addressing Risk-Based Pricing through a Catastrophe Reinsurance Pool

The current model of risk-based pricing has led to significant affordability issues for consumers, with 12% of Australians facing extreme difficulties in securing affordable insurance. In some cases, these individuals are paying premiums that amount to four times the weekly wage, compared to just over one week's wage for the average Australian. This disproportionate burden highlights the urgent need for a more equitable solution.

Implementing a government-run cyclone reinsurance pool could provide a solution by setting pricing based on broader location-based risks rather than specific addresses. Alternatively, eliminating location-based pricing for certain risks and applying a flat levy across all Australians could achieve the same goal. This shift would allow for a more equitable distribution of insurance costs, where all consumers contribute to a national pool, thus addressing the disparities created by the current model. The proposed reinsurance pool would extend its coverage to encompass a variety of location-based risks in addition to terrorism.

Considerations for Effective Reinsurance Pool Design

Below we outline additional considerations for creating an effective Reinsurance Pool:



Land Use Planning Guidelines: Implement land use planning guidelines that support reducing claims. Restrict pool entry for new builds that do not meet these guidelines.



Mitigation and Resilience Integration: ACIL strongly advocates that the ARPC should be legislated to incorporate mitigation and resilience into the pool's design. A portion of the premiums collected should fund mitigation and resilience projects based on consumer cost-benefit analysis.



Building Standards: A catastrophe reinsurance pool should be complemented by improvements in building standards, which would make buildings more resilient and result in fewer claims. These improvements can be achieved either by updating existing building standards to enhance resilience or by establishing specific standards that properties must meet to be eligible for the reinsurance pool. In such a scenario, buyers must be informed if a property does not meet the eligibility criteria for the reinsurance pool when purchasing.



Political Impact Softening: Introduce the program during a softening market cycle and phase in rate changes over a 3 to 5 year period. This approach can help avoid political backlash associated with abrupt premium alterations.



Private Reinsurance Integration: Explore a model similar to CTP (Compulsory Third Party) and WorkCover, where the government sets reinsurance rates but the private market participates in the scheme. This could enhance competition and efficiency.



Single vs. Multiple Reinsurance Programs: Assess whether it is more affordable for consumers if insurers need to purchase additional reinsurance on global markets due to a limited reinsurance program. Consider if a single reinsurance policy for consumers is more beneficial, and consult with insurers to determine the best approach.



State and Federal Collaboration: The federal government should lobby state governments to reduce stamp duty or levies at the time of implementation. This collaboration can assist with the integration of the reinsurance pool and make it more affordable for consumers.

Securing Our Future: Addressing the Moral Obligation of Insurance Affordability

As we look towards the future, we must ask ourselves what kind of country we aspire to be—one where insurance affordability and disaster resilience are paramount. Should we accept a society where some individuals are left unprotected and vulnerable, or where economies in certain regions are severely impacted by insurance costs? Or do we strive for a collective commitment where everyone shares the responsibility, ensuring equal access to insurance for all?

We must acknowledge that climate change is leading to more frequent and intense weather events, which are driving up insurance premiums. Unless climate patterns shift, we must face the stark reality that insurance will become increasingly unaffordable. To safeguard Australia's future, structural changes to the insurance industry are essential.

For ACIL, market failure is not an option, and it should not be for our government and industry either. We must embrace the fundamental principles of insurance, where the premiums of the many subsidise the claims of the few. We advocate for an inclusive insurance industry that serves every individual, providing security and peace of mind. The urgency for action by both government and insurers cannot be overstated. Let us unite in our resolve to create a future where insurance is not a privilege but a universal right, embodying the principles of equity and resilience that define our national character.



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