

## HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

### REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS INSURANCE SECTOR

#### Insurance Australia Group

**IAG010QON:** **Dr MULINO:** ...The last question I have goes back to some of the issues that you were discussing with Mr Bandt and Dr Leigh, and it's about affordability. I think, as you've alluded to, there's a broader insurance issue across the country as a whole that's been evolving for some time now; climate change is likely to exacerbate that. Then there are some more-localised issues, like storms in FNQ. I'm just wondering: do you have data over the last few years that might point to communities where this is manifesting itself in people not taking up insurance or not purchasing enough insurance? I'm thinking here across, for example, both home and contents insurance and small-business insurance.

**Mr Harmer:** I think we would have some of that data; certainly we would have that data at an industry level. I'm just trying to think logically. We may not be entirely sure of our market share or the level of insurance penetration in those sorts of local areas, but, potentially, industry data could give us a view on that.

**Dr MULINO:** Yes, because we were talking earlier about the fact that we could imagine moving towards a two-track world, where insurance is unaffordable for parts of the community. As you say, that data's probably best done at the industry level, because individual firms' market share changes in particular communities. But it would be interesting to see the extent to which that's already arising, and Far North Queensland might be an example of that. There's been concern for some time now about storm insurance in particular, and I imagine there are some people who get insurance that excludes that and some people who probably just don't insure at the moment.

**Mr Harmer:** I think that would be correct. Anecdotally, I would say, for example, that there are people living on the banks of the Bremer River who choose not to buy flood insurance, when they're probably exactly the people who do need flood insurance. In fact, they probably need it as an investment in mitigating the floods.

**Dr MULINO:** Yes. That data may help us at the government level—and at the community level, more broadly—to think about which mitigation projects should be prioritised, if we see pockets of underinsurance.

**Mr Harmer:** Yes, I'm sure that's right.

**Answer:** The issue of affordability and underinsurance / non-insurance in northern Australia was most recently canvassed in the Australian Competition and Consumer Commission's (ACCC) [second interim](#)

[report](#) on the Northern Australia Insurance Inquiry which was released in December 2019.

In producing the report, the ACCC obtained a significant volume of detailed information from the following eight insurers in northern Australia in order to gain a unique insight into the home, contents and strata insurance markets by obtaining information that past reviews of insurance markets have not been able to access:

1. AAI Limited (Suncorp)
2. Allianz Australia Insurance Limited
3. Commonwealth Insurance Limited
4. Insurance Australia Limited
5. QBE Insurance (Australia) Limited
6. RACQ Insurance Limited
7. Westpac General Insurance Limited
8. Youi Pty Ltd.

The report looked at insurance penetration in northern Australia. It revealed that the rate of households without insurance in northern Australia is nearly double the rest of the country. It estimated approximately 20% of households are not insured in northern Australia, with north Queensland having a non-insurance rate of 17% (or 62,125 properties). The estimated rate of non-insurance for the rest of Australia was around 11%.

The report also found that 95% of the ACCC's survey respondents without home insurance attributed it to cost factors (52% said they could not afford it, and 52% couldn't justify the cost). The third most common reason was a low perception of risk, suggesting affordability is not the only consideration.

The report investigated detailed case studies in northern Australia sub-regions (including Townsville (following the February 2019 floods), Cooktown, Mackay to Arlie Beach and Port Hedland) providing the ACCC's key observations and discussions about a number of issues including premium pricing, property risk ratings, claims expenses and competition in these selected regions. It also looked at small business insurance in Townsville during the February 2019 floods and presented findings about non-insurance for small businesses in flood-affected areas following a request from the Government that the ACCC considers this in parallel to the Northern Australia Insurance Inquiry.

In November 2016, SGS Economics & Planning prepared a [report](#) for IAG entitled 'At what cost? Mapping where natural perils impact on economic growth and communities'. This report represented the first time that the population data and economic activity of all Local

Government Areas (LGAs) across the nation have been overlaid with natural perils risk levels provided by the Insurance Council of Australia and IAG.

This report (and the interactive maps and data files contained in this report) identifies the LGAs with the greatest risk and they are identified because of their high natural perils risk rating, their high level of gross domestic product (GDP), their capacity to deal with natural perils or, most importantly, due to an overlap of two or more of these factors.

This information can offer value to government, individuals, communities and businesses in several ways, including:

- The analysis shows where natural perils interact with high GDP and this information can help guide government in deciding where to invest so as to minimise any disruption to the economy;
- Communities can better understand their exposure to natural perils so that they can properly protect themselves and their assets;
- Businesses can use the risk information to help minimise loss or delay of income due to a natural disaster.

With an increasing amount of Australia's economic activity taking place in locations with high risk of natural perils, the report draws attention to the long-term implications for the health of Australia's economy if investment in mitigation is not increased.

Ultimately, IAG believes the most effective way to address longer-term insurance affordability, accessibility and participation in higher-risk areas is through a nationally coordinated and well-resourced disaster resilience program that reduces the impact of extreme weather events.