

Tasmania's submission

to the Senate Inquiry into Australia's general insurance industry

February 2017

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I INTRODUCTION

Tasmania welcomes the opportunity to provide a submission to the Senate Inquiry into Australia's general insurance industry.

Insurance – and the important role it fills in supporting individuals to manage their own unique risks – has been a key issue for Tasmania following the significant and widespread flooding that occurred across Tasmania in June and July 2016. The floods caused devastation to individuals, families, businesses, farmers and local communities across 20 of Tasmania's 29 municipalities. Over 100 people were rescued and lives were lost.

While the full impact of the floods may take many more months or even years to be realised, current estimates indicate:

- the total damage bill will exceed \$180 million, including \$80 million damage to infrastructure;
- the economic cost to agribusiness is over \$36 million and the estimated cost to small business is \$3.4 million;
- numerous parks and reserves suffered significant damage, including roads, bridges, walking tracks, campgrounds, viewing platforms and other public amenities, with the cost of repair estimated at around \$10 million;
- significant damage to local government assets; and
- the impact on many industries, such as tourism, was significant but difficult to quantify.

The Committee responsible for the Inquiry may wish to note that in October 2016, the Tasmanian Government commissioned an independent review of events relating to the floods that occurred in June and July 2016. One of the terms of reference for that review is '*community preparation, resilience and awareness, including awareness of insurance matters*'.

In including insurance in the review's terms of reference, it is recognised that the role of insurance is not to mitigate the risks presented by natural hazards. Rather, insurance is regarded as a tool to help balance the costs associated with low frequency, high consequence events. With respect to floods, insurance allows individuals to accept the risk and cost of their properties being flooded once in every 100 years by spreading that cost evenly across the entire period. The insurance market sets the annual price of the risk and then manages any uncertainties by spreading the risk over a wide geographical area.

Tasmania notes that the terms of reference for the Inquiry are primarily concerned with assessing the merits of an independent comparison service for insurance. Insurance issues that emerged after the June 2016 floods suggest that the value of such a proposal would only be at the point of purchasing or changing insurers and even then would be challenging to implement.

This submission suggests that improved engagement between insurers and the insured could potentially deliver better outcomes with regard to competition, transparency and deliverables, and this approach could be largely implemented by the industry itself.

2 RESPONSE TO INQUIRY TERMS OF REFERENCE

2.1 Increase in the cost of home, strata and car insurance cover over the past decade in comparison to wage growth over the same period

Over the last decade, Australia has experienced some of the most devastating natural disasters in recorded history. These events have resulted in sizeable insurance claims and higher insurance premiums. It is important to note that the cost of an insurance policy is generally subject to an individual assessment of risk, which is undertaken by the insurer. As the level of understanding of a risk increases over time, it follows that premiums are adjusted accordingly. For example, as understandings of natural hazards improve through increased use of hazard mapping, insurance premiums for properties identified as either exposed or not exposed to that risk will be priced accordingly. Annual reinsurance costs will also be affected.

2.2 Competition in Australia's \$28 billion home, strata and car insurance industries

From a consumer perspective, there are a significant number of competitors in the Australian insurance industry, noting that some of the larger insurance groups operate under more than one brand. While competition delivers reasonable outcomes for individuals in relation to the cost of basic coverage, competition between insurers on the nature and extent of coverage (that is, what a person is specifically insured for) does not appear to be as strong.

Tasmania notes that an insurance policy that includes coverage for floods is a unique market of the insurance industry. An insurer's decision to include coverage for events such as floods is, in most cases, based on the insurer's appetite to cover and adequately price the risk: a commercial decision. While this is entirely appropriate, it highlights an issue with consumer comparison of insurance products. For a comparison service to be effective, it would need to be satisfied that products compared are identical, with regard to the nature and extent of coverage provided, before a consumer could make a true comparison.

2.3 Transparency in Australia's home, strata and car insurance industries

The main insurance issues identified in relation to the 2016 floods relate to:

- levels of individual, community and industry understanding about the actual risk from flooding to which a person's property may be exposed;
- misunderstandings about the nature and extent of individual insurance policies, specifically whether flood was an insured event and if not, the difference between damage caused by a storm and that from flooding; and
- the timely assessment and payment of claims.

These issues are linked directly with the issue of transparency in Australia's home, strata and car insurance industries, and are commonly noted after a natural disaster or, similarly, any insured loss.

Further consideration of these issues may assist with undertaking an assessment of the usefulness of a comparison service and in identifying additional areas that the Inquiry may wish to consider.

2.3.1 Understanding the level of risk

After the June 2016 floods, advice received by the Tasmanian Government suggested that some people may have voluntarily opted out of flood insurance. Reasons for this may include a conscious decision based on personal financial circumstances, or the result of a person not understanding the nature and extent of their risk.

A key principle of risk management is that the likely costs associated with exposure to a hazard, such as a flood, are known and balanced against the benefits that arise from the activity that gives rise to the exposure. In practical terms, this means that perfect risk management would involve a person being aware of their risks from floods and other natural hazards and make a conscious decision that, for example, the benefits of occupying a property in a high risk area are greater than the costs.

For this principle to be effective, hazard and risk information should be freely available so that informed decisions can be made. The Tasmanian Government already makes flood mapping data available, but considers that this is an area in which more could be done by both government and the insurance industry. While the National Flood Information Database (NFID) is available to insurers to determine flood risk for individual properties, as far as Tasmania understands, the NFID does not contain any mapped data collected or provided by insurers themselves. Unfortunately, such information is considered to be 'commercial-in-confidence'. Tasmania has previously suggested that the insurance industry freely share its hazard and risk data with governments and the community.

An insurance comparison service would not be able to address the issue of people not being aware of or understanding their specific risks. In contrast, Tasmania considers that an improved and ongoing program of engagement between the insurers and the insured would address this issue; the Tasmanian Government has previously advocated for insurance companies to actively engage with existing policy holders to provide them with easy-to-understand and unambiguous information about the level of risk from natural disasters that may threaten a property. An issue raised during the flood recovery was that not all insurance proposal and policy documents provide clear and equal emphasis to what is covered as well as what is not covered.

A more innovative and ultimately more effective approach to insurance policy renewal is one that prompts individuals to reassess their insurance arrangements and risks at the time of each annual renewal. This is a relatively low-cost option that may produce significantly improved outcomes. It is acknowledged that when offering to renew an insurance policy, some – but not all – insurers identify the additional premium that would be incurred if a person elected to increase the nature and extent of their cover. This approach also provides the benefit of being uniquely tailored to individual policyholders.

With funding assistance from the Australian Government under the *National Partnership Agreement on Natural Disaster Resilience*, Tasmania is undertaking a project to pilot a new online service through which the public may enter an address and be provided with all available information about natural disaster risks relevant to that particular property. This information will describe the nature and extent of site-based natural hazards in an easy-to-understand format, as well as information about the range of options available to help mitigate any risks.

To allow an informed assessment of the full potential of this important work, it would be beneficial if the insurance industry agreed to share its relevant hazard and risk datasets with this pilot project, as a risk management and mitigation test case that could have widespread benefits for both government and industry in Australia. Tasmania would welcome close industry involvement in all phases of the project, including the evaluation of the service's suitability and effectiveness.

2.3.2 The nature and extent of insurance policies

The difference between flood damage and that caused by a storm is a recurrent issue. While the introduction of a standard definition of 'flood' and fact sheets have improved this situation, there are challenges in identifying the difference between storm damage that a person is typically covered for and flood, which may or may not be covered. While product disclosures do provide this information to the insured, even then it is a legal issue that often involves the use of professional advice from a hydrologist to resolve.

A key issue in relation to how a comparison service may work in relation to coverage for natural disasters, particularly floods, is how a comparison could be reasonably made between the nature and extent of flood coverage that different policies offer when the cause of such flooding is often the subject of complicated legal disputes.

2.3.3 Assessment of claims

Tasmania understands that some insurance claims from the 2016 floods are yet to be settled. While it is reasonable for an insurer to be satisfied about the reasons and/or contributing factors for flood damage on a property before meeting its insurance policy obligations, seven months is a long and arguably unsatisfactory amount of time for insurers to impose on claimants left to deal with high levels of uncertainty in a period of significant loss and trauma.

2.4 The effect in other jurisdictions of independent home, strata and car insurance comparison services on insurance cover costs

Tasmania has no comment on this matter.

2.5 The costs and benefits associated with the establishment of an independent home, strata and car insurance comparison service in Australia

Tasmania considers that the costs and benefits could only be reasonably identified once a proposed model has been developed.

2.6 Legislative and other changes necessary to facilitate an independent home, strata and car insurance comparison service in Australia

Tasmania considers that any necessary legislative changes could only be reasonably identified once a proposed model has been developed.

2.7 Related matters

Tasmania notes there have been a significant number of inquiries, reviews and reports that have considered the issue of insurance. The Inquiry Committee may wish to consider this as it deliberates on the terms of reference and the submissions it receives.

The Inquiry may also wish to consider the *National Strategy for Disaster Resilience*, which was agreed by the Council of Australian Governments (COAG). The Strategy outlines a new approach to risk management that focuses on the Australian community accepting a shared responsibility to prevent, prepare, respond and recover from natural disasters. This includes developing a shared understanding of the level of risk, reinforcing the need for governments, industry and individuals to articulate and attribute the ownership of risks to those who are going to benefit from the treatment of them. A core objective of the Strategy is to ensure that, over time, risks from natural hazards are factored into decision-making processes and investment decisions, including decisions about insurance.

The Inquiry may also wish to consider the outcomes and outputs of Tasmania's independent review of the June 2016 floods, led by former Tasmanian Auditor-General, Mike Blake. A report on that review is expected in June 2017.