

Joint Select Committee on Northern Australia

ANSWERS TO QUESTIONS ON NOTICE

Cyclone Reinsurance Pool

Agency: Australian Competition and Consumer Commission

Question No: Written Questions on Notice

Topic: **Australian Cyclone Reinsurance Pool**

Question:

1. Are the reported policy premium increases typical, or are they limited to certain sectors and/or locations in Northern Australia?
2. What magnitude of annual premium increase (or range) is typical across Northern Australia?
3. What are the typical drivers behind premium increases (e.g. risks such as weather events, location and climate change, increases to stamp duty and GST, reinsurance costs, inflation)? What is the approximate percentage contribution of each factor to a premium rise?
4. Does the ACCC believe there is evidence of over-inflated premiums or price gouging?
5. Do your findings support anecdotal evidence suggests that insurance companies reward new customers and penalise existing customers with higher premiums?
6. What are the estimated rates of non-renewal for property insurance? Has this increased or decreased? What are the implications of these figures?
7. Are mortgage holders declining to take out insurance, despite this being a lending requirement?
8. What is the extent of operation of mutual insurance companies in Northern Australia, or more widely? What does the evidence show?
9. What, if any, policy or other measures might be required to develop mutual insurance operations in Northern Australia?
10. What further mechanisms could reasonably be applied to help reduce premiums and increase insurance availability for residents and businesses in Northern Australia?

Answer:

1. The ACCC is aware of a variety of media reports and other pieces of analysis concerning policy premium increases in Northern Australia (and other regions).

The ACCC's 2023 Insurance Monitoring report found changes to premiums varied depending on the type of insurance (for example, home, strata or small business insurance), the location of the property being insured, and factors such as the sum insured and the excess level selected by the consumer.

Price changes also differ depending on the time period examined. The ACCC has presented long term price trends on outcomes across each of northern WA, the Northern Territory, North Queensland, and the rest of Australia (see for example pp. 89 and 112 of the report).

We also note in our report that average or median figures will not be necessarily representative of the individual experiences of particular policyholders. Our report uses box plots to present outcomes across a range of premiums paid by different customers (see p.88 of the report for an explanation of these plots).

2. The ACCC's 2023 Insurance Monitoring report found that average premiums for combined home and contents insurance increased across Australia in 2022–23. North Western Australia had the highest average premium of \$4,395 and increased by 4 per cent year on year, in nominal terms. Average prices in the Northern Territory rose the sharpest of the northern regions, by 13 per cent to an average of \$2,922, followed by north Queensland with a 7 per cent increase to \$2,918.

In comparison, the rest of Australia experienced an increase in average home and contents insurance premiums of 15 per cent, with policyholders paying on average \$1,779 in 2022–23. Figures 7.1 (nominal) and 7.2 (adjusted for inflation) of the report illustrate changes in average premiums per year by region for the period 2007-08 to 2022-23.

3. In 2017, the then government asked the ACCC to conduct a wide-ranging inquiry into the supply of residential building (home), contents and strata insurance in northern Australia (the Northern Australia Insurance Inquiry). Among other matters, we were asked to consider key cost components of insurance pricing in northern Australia and how they have changed over time, particularly catastrophe risk. Our findings about how insurers set premiums are detailed extensively through the final report of that inquiry, which was finalised in November 2020.

Generally speaking, insurance has traditionally been about pooling risk across consumers. However we found that better access to data, and more sophisticated analysis of that data, has enabled insurers in northern Australia to assess and price risk at an individual address level, rather than based on the average risk at a postcode or larger regional level. This is particularly the case for cyclone risk and also flood risk. While address level pricing allows insurers to more accurately assess and price risk, it has resulted in very large increases to premiums for some customers.

More recently, the ACCC's 2023 Insurance Monitoring report considered the costs incurred by insurers in supplying home insurance products across northern Australian regions (north Western Australia, the Northern Territory, north Queensland) and the rest of Australia. The report found net claims and reinsurance costs make up at least 65% of the cost per policy in all regions except the Northern Territory, where it makes up 60%. Of these costs, reinsurance expense was the highest in north Queensland at 41%, with the other 3 regions all between 22% and 27%.

The report found average costs incurred (adjusted for inflation) per policy in northern Australia had decreased in between 2017-18 to 2022-23, noting that this was likely due to a low number of significant events impacting northern Australia over that period. Over this same period, the average cost per policy had been rising in the rest of Australia, before steadying in 2022-23. External factors such as extreme weather events, rising building costs, and hardening reinsurance markets were commonly cited by insurers as factors impacting the costs of supplying insurance.

The costs incurred per policy by insurers outlined above do not consider any taxes or levies as they are not a cost to the insurer, but rather an added cost to the consumer. The taxes imposed on home insurance mean that premiums charged by insurers are increased by 19.9% in Queensland and by 21% in the Northern Territory and Western Australia. As premiums grow in northern Australia, so too does the dollar value of the amount paid in GST and stamp duty.

The relative movements of insurer costs in providing home insurance are examined in Chapter 7 of the ACCC's 2023 Insurance Monitoring report.

4. As noted in question 3 above, the ACCC discussed the reasons driving premium growth extensively in its Northern Australia Insurance Inquiry. We found that better insurer access to granular data, and more sophisticated analysis of that data, is enabling insurers to assess risk and set premiums with reference to an increasing range of consumer and property characteristics. The ACCC has previously found this to be particularly the case for cyclone

risk and also flood risk. While address level pricing allows insurers to more accurately assess and price risk, it has resulted in very large increases to premiums for some customers in recent years.

5. In our Northern Australia Insurance Inquiry, we found that insurers were making premium adjustments to optimise price. These are adjustments that are made with reference to particular characteristics of a customer, such as their propensity to shop around. The effect of these approaches was particularly clear in the gap between premiums paid by new customers compared with renewing customers.

Even after accounting for variations in sums insured, we found that renewing customers paid an average of 7 to 24% more than new customers in northern Australia in 2018–19. Although the percentage differences between new and renewing premiums were smaller in some parts of northern Australia on average, the difference in dollar terms was larger in northern Australia due to higher premiums. The difference was \$255 in north Western Australia, \$369 in north Queensland and \$458 in the Northern Territory. In all cases this was more than the average difference in the rest of Australia, where renewing customers paid \$241 more than new customers.

We made a range of recommendations in the final report of that inquiry to make it easier for consumers to search for, and compare, insurance products.

6. The ACCC has not reported on estimated rates of non-renewal.

However, in Chapter 12 of our 2017-2020 Northern Australia Insurance inquiry, we did estimate rates of home building non-insurance more generally by comparing data on insurable properties with data on the number of insurance policies written. Combining policy information collected from insurers with Census data, we estimated the rate of home building non-insurance in northern Australia to be around 20% (or around 86,000 properties) in 2016, compared with 11% for the rest of Australia. The estimated rate of non-insurance was highest in north Western Australia at 40% (around 10,700 properties), followed by the Northern Territory at 26% (around 13,200 properties) and north Queensland at 17% (around 62,100 properties).

The level of non-insurance varied significantly between postcodes across the region, with average figures masking pockets of deeper non-insurance. Compared with 2011, the estimated rate of home building non-insurance had increased by seven percentage points in north Queensland and nine percentage points in north Western Australia.

Given these trends, and the anecdotal feedback we have heard, we consider it likely that rates of non-insurance have continued to rise across northern Australia in more recent years.

7. The ACCC has not examined the extent to which mortgage holders are not taking out insurance.
8. The ACCC has been directed to monitor the prices, costs, and profits of home, contents, strata, and certain commercial insurance policies, before and after the introduction of the government's cyclone reinsurance pool.

Given the scope of that direction, we have not specifically examined the operation of mutual insurance companies in Northern Australia or more widely.

9. The ACCC has not examined, or made findings or recommendations on, policy or other measures that would be required to develop mutual insurance operations in northern Australia.

However, the relative merits of government insurance pools or mutuals (collectively, government insurers) was examined in the ACCC's Northern Australia Insurance Inquiry. We concluded that a government insurer would be unlikely to address affordability issues in northern Australia in a way which would justify the scale and costs of such an intervention. The reasons for reaching this conclusion are outlined in Section 8.4 of the Northern Australia Insurance Inquiry final report.

10. In the Northern Australia Insurance Inquiry final report, the ACCC made 38 wide-ranging recommendations to governments and industry to improve competition and consumer outcomes in the markets for residential home, contents and strata insurance in northern Australia through a variety of means. Broadly, we categorised the recommendations in six key areas:

- making it easier to search for, and compare, insurance products
- choosing the right amount of insurance cover
- dealing with conflicts of interest
- addressing immediate affordability concerns
- improving consumers' rights
- reducing risk and building better

The ACCC considers that many of the findings and recommendations from our Northern Australia Insurance Inquiry final report remain relevant today.
