Chapter 4

Views on Queensland's insurance arrangements

4.1 This chapter looks at the views of the Commonwealth Treasury, the Queensland Treasury and the Insurance Council of Australia on the adequacy of Queensland's current insurance arrangements. It concludes by noting the Queensland state government's plans to reinsure its assets through the international market.

Treasury's view of Queensland's insurance arrangements

4.2 In February 2011, the House of Representative Economics Committee took evidence from Treasury on the flood levy bills.[1] Treasury was asked whether it would have been less expensive for the Commonwealth had the Queensland Government insured its public infrastructure. It responded:

> ...the better question is: would it be more expensive for the economy and for the population at large if different insurance arrangements had been in place in Queensland? I do not think that any of us know the answer to that question, because we do not know how expensive those insurance arrangements would have been and therefore the impost on Queensland taxpayers.[2]

4.3 In evidence to this inquiry, Treasury indicated that Queensland has a higher risk profile than the other states. It noted that:

> The history of payments under the NDRRA to the various states and territories would suggest that there are substantially different risk profiles among the states. Queensland has gotten the larger share of money under the NDRRA...[T]he history of the NDRRA suggests that roads are the cause of most damage, events like floods are much more damaging to roads than fires and even cyclones, and those sort of things, which may suggest that Queensland has a different risk profile than other states.[3]

The Queensland Government's view

4.4 As chapter 1 noted, the committee received a considerable amount of material from the Queensland Government relating to its insurance arrangements. Accompanying these documents was a cover letter from the Queensland Minister for

---

1 Income Tax Rates Amendment (Temporary Flood Reconstruction Levy) Bill 2011 and the Tax Laws Amendment (Temporary Flood Reconstruction Levy) Bill 2011

2 Mr Nigel Ray, Executive Director, Fiscal Group, Department of the Treasury, *Proof Committee Hansard*, House of Representatives Standing Committee on Economics, 16 February 2011, p. 9.

3 Mr Damien White, Treasury, *Proof Committee Hansard*, 13 May 2011, p. 7.

Finance, the Hon. Rachel Nolan MP. In her letter, the Minister made the following points:

- the documents do not show that the Queensland Government was offered natural disaster reinsurance including roads for $50 million a year;
- the Commonwealth Government has never asked the State to seek external insurance;
- the Commonwealth has not previously requested a local government to adopt external insurance, despite local governments also relying on NDRRA cost sharing arrangements;
- the Commonwealth Government does not have external insurance for its 75 per cent liability under NDRRA arrangements; and
- on 21 February 2011, the Queensland Government announced that it would again go to the international market for quotes to reinsure state assets.[4]

4.5 In 2004, the Queensland Government sought a quote on reinsuring the QGIF from the international insurance market. This exercise was conducted by Queensland Treasury through its insurance advisors Aon. The terms on which insurance was available at the time was for the property of the state, excluding its roads. Insurance of up to $500 million in damages was available, with a $20 million excess payable on each event for a $6.4 million premium.[5]

4.6 However, Minister Nolan notes in a letter to the committee that these property assets account for only $150 million of the $5.8 billion estimated in costs from the recent natural disasters in Queensland. Accordingly, the Minister argues that it does not follow that an external insurance policy would have prevented the billions of dollars in costs now being borne by the state and federal governments. [6]

4.7 During the House of Representatives committee hearing, the Queensland Under Treasurer, Mr Gerard Bradley, was asked why the state government did not have insurance for Cape York. He noted that the state government had considered buying reinsurance from the QGIF but it considered that the offer did not represent value for money for the state. He added:

> We sought reinsurance advice from our broking advisers and we did take that to the international insurance industry. But the costing of that and the risk provisions that they proposed did not represent value for money for the

---

4 The Hon. Rachel Nolan, Queensland Minister for Finance and the Arts, *Letter to the committee,* 18 April 2011, p. 2.

5 The Hon. Rachel Nolan, *Letter to the committee*, 18 April 2011, p. 2.

6 The Hon. Rachel Nolan, *Letter to the committee*, 18 April 2011, p. 2.

> state in terms of the deductions for events and the exposures they were willing to cover. They did not, for example, cover natural disaster.[7]

4.8 However, the Queensland Under Treasurer told the committee that the state government did not seek a premium in relation to natural disaster events. He added that other considerations need to be taken into account such as the total risk sharing arrangements. Moreover, he argued that the nature of Queensland's assets—such as road infrastructure—is different and the incidence of natural disasters is more frequent than in other states.[8]

4.9 Mr Bradley was asked why the Queensland Government had not sought insurance given the greater frequency of natural disaster events in the state. He responded that the sharing arrangements between the Commonwealth and the States have worked well over a long period of time.[9] He explained that the precise ratio of Commonwealth to state contribution varies from year to year and that thresholds apply to how the events are shared.

4.10 The Queensland Under Treasurer told the House committee that the Queensland Government does have in place 'appropriate insurance' through its captive insurer. He also observed that there are insurances in place for certain assets that have been impacted by the floods that do not qualify for NDRRA arrangements.[10]

4.11 It was also clarified that Queensland's captive insurer only covers government budget funded agencies, so outside of that each of their public utilities and commercial entities would make their own decisions in relation to the insurance arrangements they would put in place and many of them would seek external insurance to cover events. Mr Bradley gave the example of Stadiums Queensland which has insurance that covers the damage to Suncorp Stadium and to the tennis centre. Another example is Queensland Motorways, which has insurance coverage for the Gateway Bridge in Brisbane.[11]

---

7 Mr Bradley, Queensland Under Treasurer, *Proof Committee Hansard*, House of Representatives Standing Committee on Economics, 16 February 2011, p. 20.

8 Mr Bradley, *Proof Committee Hansard*, House of Representatives Standing Committee on Economics, 16 February 2011, p. 23.

9 Mr Bradley, *Proof Committee Hansard*, House of Representatives Standing Committee on Economics, 16 February 2011, p. 24.

10 Mr Bradley, *Proof Committee Hansard*, House of Representatives Standing Committee on Economics, 16 February 2011, p. 20.

11 Mr Bradley, *Proof Committee Hansard*, House of Representatives Standing Committee on Economics, 16 February 2011, p. 20.

Roads

4.12 A key issue for the committee's questioning on Queensland's insurance arrangements was why the state does not have a reinsurance policy for its extensive road network. The Queensland Under Treasurer has noted that 80 per cent of the cost of the Queensland floods relates to roads.[12] Any damage to Queensland's roads in a natural disaster is covered by the NDRRA.[13]

4.13 The Queensland Government has stated to both this inquiry and the House of Representatives committee inquiry that when it sought a reinsurance quote in 2004, this did not include cover for its roads. Mr Neil Singleton, the Queensland Government's Insurance Commissioner, was specifically asked whether the state sought a quote for roads. He responded:

> Since the formation of QGIF [in 2001] and prior I do not believe there has ever been a focus on insuring the road network. From an insurance perspective, it is regarded as a complex issue to insure. The focus has been on the main property and liability program rather than on roads per se.
>
> ...
>
> The proposal that was put forward was a property insurance program, excluding roads. The decisions taken were on that particular program, but the program was never intended to cover the full road network and no quotes were prepared and no information was gathered for the roads; it was only for the property that that program was costed.[14]

4.14 Mr Singleton told the committee that an exercise is currently being undertaken by the State Department of Transport and Main Roads to calculate the value of Queensland's 33 000 kilometres of road system.[15] He noted that this exercise is being conducted with a view to seeking insurance from the market.

The Insurance Council's view

4.15 During the House of Representatives committee hearing in February, the Insurance Council of Australia was asked for its view on the Queensland Government's decision not to take out a reinsurance policy for its public assets. Mr Karl Sullivan of the Council told the committee:

> ...to draw a parallel, if we created a situation in the private market where it became apparent that you did not need to insure your property and your

---

12 Mr Gerard Bradley, *Proof Committee Hansard*, House of Representatives Standing Committee on Economics, 16 February 2011, p. 20.

13 Mr Neil Singleton, Queensland Insurance Commissioner, *Proof Committee Hansard*, 13 May 2011, p. 38.

14 Mr Neil Singleton, *Proof Committee Hansard*, 13 May 2011, pp 33–34.

15 Mr Neil Singleton, *Proof Committee Hansard*, 13 May 2011, p. 40.

> assets because there would essentially be a community bailout if a situation occurred then that would not be a positive outcome for Australia. You have to go into the economics and the feasibility of that type of cover.[16]

4.16 Mr Sullivan also suggested that there are insurance products available that would cover the public costs currently faced by the state of Queensland:

> There are examples internationally in far more disaster prone areas—for example, in parts of the Caribbean and in Alabama in the US—where they have taken out these products to fund their own recovery efforts. In many cases those would not fund 100 per cent of a recovery effort. That would be a matter of how much appetite for risk the state has, how much they want to push out to global reinsurers. There are certainly products available. They are highly configurable, and you can accept as much or as little of the risk as you like.[17]

4.17 The Insurance Council was asked: 'Is this basically an issue where, because the Commonwealth is picking up the tab, the state government has not bothered purchasing the product?' Mr Sullivan responded:

> In some respects you could argue that the arrangements under which that is done is an insurance policy for individual states. Our position is that perhaps this presents an opportunity to look for a better mix that encourages state governments to rely less on other governments and less on the particular arrangements.[18]

Queensland's current approach to the market

4.18 On 21 February 2011, the Queensland Treasurer, the Hon. Andrew Fraser MP and the Queensland Minister for Finance, the Hon. Rachel Nolan MP, announced that the Government would go to the international market for quotes to reinsure Queensland's state assets. In her letter to the committee, Minister Nolan stated that as part of these efforts, the Queensland Government has engaged advisors Aon to conduct an 'international market sounding exercise' and has budgeted up to $1 million for the task. The Minister anticipates the exercise will be complete in time to meet the Commonwealth's September request.[19]

---

16 Mr Karl Sullivan, *Proof Committee Hansard*, House of Representatives Standing Committee on Economics, 16 February 2011, p. 49.

17 Mr Karl Sullivan, *Proof Committee Hansard*, House of Representatives Standing Committee on Economics, 16 February 2011, p. 49.

18 Mr Karl Sullivan, *Proof Committee Hansard*, House of Representatives Standing Committee on Economics, 16 February 2011, p. 47.

19 The Hon. Andrew Fraser MP and the Hon. Rachel Nolan MP, 'Statement on reinsurance', *Ministerial Media Statements*, 21 February 2011 http://www.cabinet.qld.gov.au/mms/StatementDisplaySingle.aspx?id=73685 (accessed 10 May 2011).

4.19 These plans were explained to the committee in more detail by the Queensland Insurance Commissioner, Mr Neil Singleton. He noted that his current priority with the QGIF is to:

> ...prepare our reinsurance program and gain Treasury and Queensland government endorsement for program options and then work with our insurance advisers on how best to promote the program to the reinsurance market in order to get the most cost-effective insurance solution. The program will cover property, which is buildings and the like; casualty or public liability; and roads. We have distinguished roads from other property assets, given the very different nature of the risk and our desire to avoid complicating the placement of the property program itself.
>
> We have recently completed data capture and will shortly complete the data analysis phase of our project and, over coming weeks, we have workshops which will focus heavily on insurance for our road network and which will also confirm the risk tolerance and liability limits which effectively will determine the range of policy coverages for which we will seek indicative pricing from the market. If cost-effective solutions are available, our intention is to have the program implemented in September this year. Our plan is to visit overseas reinsurers in July and our advisers believe we will have indicative premium quotations available in August for us to make a determination. These time frames are indicative, as we cannot control how reinsurers may respond to our proposals.[20]

4.20 In their statement on 21 February 2011, Ministers Fraser and Nolan suggested there are exceptional circumstances for Queensland as it seeks reinsurance for natural disasters, including its road network:

> Getting reinsurance coverage for Queensland is an entirely different proposition than it is for any other state. Our state is prone to natural disasters, and the decentralised nature of our population means we have many government buildings and major roads spread across vast areas.[21]

Concluding comment

4.21 While these may well be exceptional circumstances, the committee strongly supports the Queensland Government's approach to the international insurance market. Given the scale of recent disasters, and the extent of Commonwealth assistance to the State, it is important that the Queensland Government gives careful consideration to the offers it receives from the market. The considerations are discussed further in the following chapter.

---

20 Mr Neil Singleton, *Proof Committee Hansard*, 13 May 2001, p. 30.

21 The Hon. Andrew Fraser and the Hon. Rachel Nolan, 'Statement on reinsurance', *Ministerial Media Statements*, 21 February 2011 http://www.cabinet.qld.gov.au/mms/StatementDisplaySingle.aspx?id=73685 (accessed 10 May 2011).