INSURANCE COUNCIL OF AUSTRALIA

Media Release

December 5, 2014

Government actuary correctly diagnoses North Queensland's cyclone impact as driver of insurance prices

The independent Australian Government Actuary's report on home and contents insurance prices in North Queensland shows insurers have been losing money in the region for many years due to the higher proportion of claims that are paid due to its exposure to cyclones.

Insurance Council of Australia CEO Rob Whelan said: "Over a long period, insurers have paid out $1.40 for every $1 they receive in premiums in North Queensland. They are losing money in an unsustainable fashion due to the fact communities in the region are frequently hit by cyclones.

"However, despite these losses, insurers have remained in the market and have helped rebuild North Queensland communities following some of Australia's largest natural disasters of recent years, including Cyclone Larry ($540 million in insurance costs), Cyclone Yasi ($1.4 billion), and ex-TC Oswald ($977 million).

"Actions to increase competition in a market where the competitors all consistently lose money will be unlikely to have as strong an effect as solving the underlying problem – many properties in North Queensland experience regular extensive and expensive damage due to the impact of large cyclones."

Mr Whelan said the report, released this afternoon, reinforced the need for the Federal Government to work urgently with the Queensland government and local councils to invest in lowering the physical risk to cyclone-exposed communities.

He said: "This report supports the draft findings of the Productivity Commission's report into natural disaster funding, which identifies that significant investment in mitigation is the most appropriate way to reduce risk, and thereby influence insurance prices.

"The Australian Government Actuary estimates that insurers would still have been operating at a considerable loss if today's higher premiums had been paid by householders consistently over the past eight years.

"The AGA report shows the cost of cyclones is the single largest contributor to the pricing difference between North Queensland and other markets. This is also reflected by the price increases imposed by international reinsurers on local policyholders.

"Prevention by reducing the impact of cyclones on these communities, rather than market intervention, is the only long-term solution."

–MORE-

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The Australian Government Actuary's report highlights:

- On average, claims costs in North Queensland were more than 80 per cent higher than in Brisbane, Sydney and Melbourne over the eight-year period of the investigation (4.1) – <u>see graph 1 below</u>

- The cost of cyclone risk is likely to be the main reason why NQ premium rates are, on average, significantly higher than premium rates in most other parts of Australia (1.13) – <u>see graph 2 below</u>

- The average cost of cyclone risk for NQ policyholders exceeds the cost of all other natural perils in most other regions (1.14)

- The estimated cost of cyclones represents the single largest contributor to regional difference. For example, when home buildings and home contents are considered together, the cost of claims related to cyclone risk is estimated to account for about half of the cost of all NQ claims. In contrast, there is no cyclone risk for the southern capitals (5.8)
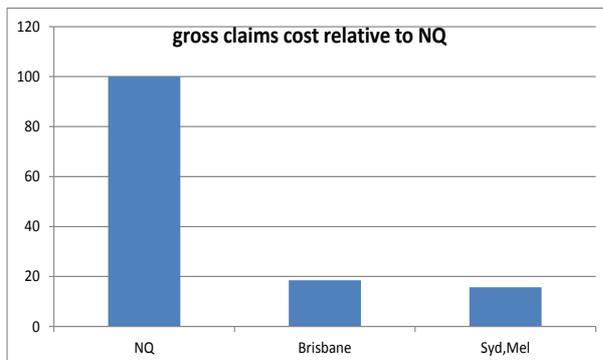
Mr Whelan said: "Price comparison websites and allowing home owners to be exposed to the risk of taking out cover with unauthorised and unregulated foreign insurers will do nothing to reduce costs or vulnerability.

"The most effective and only sustainable way to encourage greater competition and lower premiums is for governments to take appropriate actions to lower the vulnerability of communities in North Queensland to the constant risks of natural disasters.

"This is the third report by the Australian Government Actuary that demonstrates North Queensland's insurance pricing is driven by the extreme cyclone risk the region faces, and not other factors."

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Graph 1:   **Graph 2:**