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The Australian Insurance Market: Key Changes Since 2011

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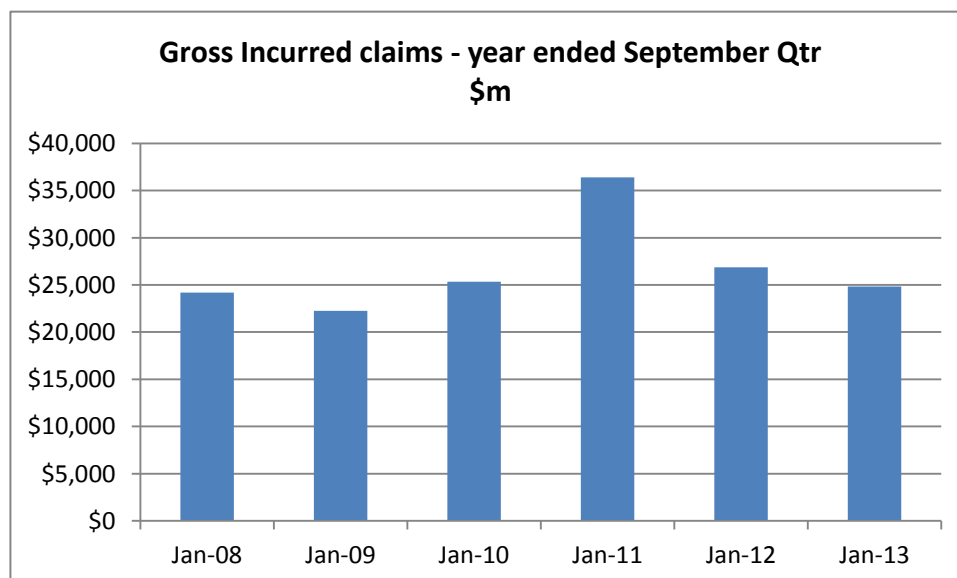
The Australian insurance market: key changes since 2011

Australia, a vast continent, is beset by a range of disasters including floods, cyclones, storms, bushfires and earthquakes. Though Australia has experienced many insurance catastrophes over recent decades—most notably Cyclone Tracy, the Newcastle earthquake and the 1974 floods—2011 was the worst year in memory for multiple natural disasters.

The Insurance Council of Australia (ICA) declared eight catastrophes in 2011, including cyclone, floods, bushfires and storms. These disasters triggered a significant response from the insurance industry and substantial reforms and industry initiatives to adopt a more proactive approach to disaster mitigation and affordability.

The numbers

The private-sector general insurance industry in Australia generates gross premium revenue of AUD39.9 billion a year, has assets of AUD118.1 billion and pays out AUD92.5 million in claims, on average, to policyholders each working day. Following is the chart showing the Gross Incurred Claims in Australia from 2008 to September 2013. As shown, 2011 was the hardest hit year as is discussed later.



Market share and level of competition

The general insurance market in Australia is highly competitive and rigorously regulated, with 122 licensed insurers operating. Four general insurers are listed on the Australian Stock Exchange—Calliden, IAG, QBE and Suncorp.

Newer entrants such as Hollard, AIG, Real Insurance, Youi and Coles are becoming as well known as the traditional dominant players in motor and home insurance. Research commissioned by Accenture Australia found three of the

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most recognised 12 home insurance providers and five of the top 12 motor insurance providers were challenger brands, with these providers gaining awareness and effective cut through in their market messaging to consumers.

Australia: managing disasters

Over the course of 2011, general insurers stepped up their physical and policy response to an unprecedented number and scope of natural disasters—massive floods and a cyclone in Queensland, two storms and floods in Victoria and two large bushfires in Western Australia—leading to total catastrophe-related claims of AUD5.4 billion for the year.

Even as the flood waters receded from two disasters in January 2011, the ICA devised a 10-point plan to help make communities more resilient to extreme events. This focused on a range of measures to be taken by government and the insurance industry, with the aim of preventing future catastrophic weather events having the same impact as those experienced in 2011 including:

- investment in permanent mitigation infrastructure to protect at-risk communities
- introducing a standard definition of flood
- provision of adequate flood data and mapping to regularly inundated areas
- policy and industry initiatives to develop an effective and sustainable response to disasters, inviting government and the industry to engage in a dialogue on how to mitigate the damage caused by future flood events.

According to the Financial Ombudsman Service (FOS), one of the biggest outcomes from the Queensland floods of 2011 and more catastrophic floods in January 2013 was the rapid rollout of flood cover by insurers, and a dramatic reduction in the number of disputes between insurers and customers.

Standard definition of flood

Following the devastation of the 2011 catastrophes, the scope of reforms introduced nationally and in several state jurisdictions is benefiting the wider community and insurers.

The most significant of these reforms was the introduction of a standard definition of flood following 18 months of discussions with the Federal Government. This was an outcome the industry had first tried to achieve in 2008. Today, consumers and insurers have greater peace of mind about flood cover and insurance companies have rolled out flood-based products. More than 90 per cent of residential policies purchased in Australia have flood cover, compared with only 3 per cent of policies in 2006.

Despite the introduction of flood cover, a key issue remains—many of the towns and cities flooded over the past four years will be flooded again unless governments urgently invest in permanent, well-designed and maintained physical mitigation infrastructure.

Self-regulation

The ICA's General Insurance Code of Practice (Code) raises services standards, improves the way that claims and complaints are handled and helps people better understand how general insurance works.

Continuing its commitment to the relationship between consumers and insurers, the ICA Board agreed to changes to the Code in February 2012 to provide clearer timeframes for claims handling, including during declared catastrophes. These came into effect on 1 July 2012.

The ICA also brought forward its triennial review of the Code by 12 months and commissioned a thorough review. A new Code is slated for introduction from July 2014.

The insurance industry worked with Australia's Federal Treasury on the introduction of a one page Key Facts Statement (KFS) to complement plain-English Product Disclosure Statements for home building and contents insurance, with the industry having a two-year transition period until November 2014.

Flood data

Access to affordable insurance is a significant issue for communities that are exposed to extreme weather events such as floods and cyclones, and the ICA is working closely with governments and customers to help them understand insurance risks and work towards practical solutions.

Part of this work involves improving access to flood data around Australia so that insurers can develop more accurate pricing for policies. In most jurisdictions, flood data is collated and managed by local governments and the ICA is contacting local governments to request flood data for inclusion in its National Flood Information Database, which is used by insurers to determine the flood risk to individual properties.

A Memorandum of Understanding (MoU) between the Queensland Government and the ICA signed in October 2013, shows the collaboration between industry and government. This provides the insurance industry with full access to flood data and sets out a programme of work to help address the issue of insurance affordability in Queensland. It represents a significant step in helping reduce the uncertainty in assessing risk and calculating insurance premiums for Queensland households and businesses.

Community infrastructure

Flood mitigation infrastructure can reduce the impact of flooding and the ICA believes that disaster mitigation is a key area that needs to be urgently addressed; otherwise damage will continue for those in exposed areas, which will be reflected in the price of insurance policies.

Governments in Australia are increasingly focusing on this issue and the construction of permanent mitigation is already leading to the reduction in premiums in flood-prone areas. For example, one Australian insurer slashed the cost of new home and contents policies by an average of AUD400 in Charleville, Queensland, following the completion of flood mitigation works in the town. In Roma, another Queensland town which has experienced consecutive years of floods, an average 30 per cent reduction in insurance premiums is expected following the construction of Stage 1 of the Roma levee.

Land-use planning

Better land-use planning along with physical mitigation are the best ways to help protect at-risk properties. Though this complex area requires effective coordination between federal, state and local governments, the ICA has long encouraged greater communication on this issue. The Queensland Flood Commission identified in its 2012 report that land-use planning which prevents development in inappropriate areas, such as flood plains, will help reduce the impact of natural disasters on new and expanding communities.

Building standards

The ICA believes new properties should be built to withstand natural disasters by revising building standards to improve resilience. The ICA has several resilience programmes in place including the Australian Resilience Taskforce, the Property Resilience Exposure Program and the Building Resilience Rating tool.

An independent study in 2013 into strata-title properties in Tropical Queensland by James Cook University, commissioned by the ICA, recommended these types of properties undergo regular engineering inspections to ensure these properties are resistant to future extreme weather events and to improve understanding of the buildings' potential performance during these events.

Education and financial literacy campaign

Listening and responding to the concerns of policyholders, governments and consumer advocates following the disaster-filled years of 2010-2011, the insurance industry committed to develop its [Understand Insurance](#) financial literacy initiative. Launched in late 2013, this is a consumer-friendly and information-rich website supported by social media aimed at empowering consumers and businesses to make better, more informed decisions about their insurance.

Understand Insurance research, conducted by Quantum for the launch of the initiative, revealed a high level of underinsurance in the Australian community.

Tax reform

On tax reform, the ICA believes abolition of all state levies and stamp duties is achievable by 2015 if state and federal governments work together on tax reform.

The Victorian State Government's reform of funding fire services—where it has abolished the Fire Services Levy (FSL) from 1 July 2013—was one of the key recommendations of the Bushfires Royal Commission into the devastating 2009 bushfires in Victoria that killed 173 people. Now funding for fire services is shared across the community via a property-based charge and not unfairly and inequitably carried by insured policyholders. This reform has resulted in almost universal falls in premiums, with the Fire Services Levy Monitor reporting: "Most brands have averaged a total premium reduction of between 11 and 18 per cent in the Metropolitan Fire Brigade region and between 21 and 35 per cent in the Country Fire Authority region, largely due to the FSL coming out of the total premium".

The New South Wales Government is considering its own steps towards reforming its emergency funding model, issuing a discussion paper in 2012 and embarking on a consultation process in 2013.

In the Australian Capital Territory, the Government announced it would phase out insurance stamp duties over a five-year period, an initiative the ICA would like to see adopted by all states by 2015.

However, in 2012 the Tasmanian Government announced a 2 percentage point increase in the general insurance stamp duty rate to 10 per cent and in 2013, the Queensland Government also increased its stamp duties to 9 per cent effective from 1 August 2013 (up 1.5 percentage points for household policies and 4 percentage points on motor vehicle policies).

It is clear that insurance affordability will be an ongoing issue and governments control many of the fiscal levers that could reduce the costs to consumers.

Insurance Council of Australia

The Insurance Council of Australia (ICA) is the representative body of the general insurance industry in Australia and its members represent more than 90 per cent of total premium income written by private sector general insurers. ICA members, both insurers and reinsurers, are a significant part of the Australian financial services system.